



***New Mexico  
Highlands University  
Financial Audit  
For  
Fiscal Year***

**2018**

**FINANCIAL AUDIT  
FOR  
FISCAL YEAR 2018**



**NEW MEXICO HIGHLANDS UNIVERSITY<sup>®</sup>**

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
PRESIDENTS MESSAGE (UNAUDITED)**



Founded in 1893, New Mexico Highlands University is a multicultural university at which Hispanic, Native American, and African American students comprise some 64.4 percent of the enrollment. Forty percent of our students are studying at the master's level in the Schools of Education, Social Work, and Business, Media and Technology as well as in several areas of strength in the arts and sciences. Highlands is widely regarded as northern New Mexico's university; however, our students come from across the state, the country, and the world with 19 tribes, 42 states and 36 countries represented.

On July 1, 2015, I became Highlands University's 18th president. With my servant, leadership style coupled with the hard working faculty and staff, we shall continue to be Northern New Mexico's university of choice. I have put in place some new initiatives that are building on those previous achievements for the continual success of Highlands.

Investing in the future, included revamping of our advancement and foundation office. We added new positions and hired a VP for Advancement. Secondly, regarding strategic enrollment management, I engineered a comprehensive strategic enrollment management plan, including new positions, advance analytical tools, implementation of effective best practices, and a robust marketing plan.

Investing in our students, prompted us to establish a Center for Teaching Excellence. This center has helped faculty to expand on industry-wide high-impact practices, development of undergraduate research opportunities, and active learning techniques and activities.

New opportunities, the growth of online programs and new areas of study such as allied health degrees and programs, provides potential for substantial growth for programs here at HU.

As you will see in this report, Highlands has seen some recovery of state funding since the reductions during the recent recessionary period. We still have challenges in recovery from the recession and decline in state appropriations due to dependency on oil and gas revenues.

However, our future is bright at HU and it is a privilege to serve this institution.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY**

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**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY**

**June 30, 2018**

**BOARD OF REGENTS AND PRINCIPAL OFFICERS**

**Board of Regents**

<i>Appointed Members:</i>	<i>Title:</i>	<i>Term Expires:</i>
Leveo V. Sanchez	Chairman	December 31, 2018
LouElla Marr-Montoya	Vice-Chair	December 31, 2020
John Padilla	Regent	December 31, 2019
Frank Marchi	Treasurer	December 31, 2022
John Ramon Vigil	Student Regent	December 31, 2018

**Principal Administrative Officials**

Dr. Sam Minner	President
Dr. Roxanne Gonzales	Provost/Vice President for Academic Affairs
Dr. Kimberly Blea	Dean of Students
Mr. Max Baca	Vice President for Finance & Administration

**Principal Financial Officials**

Paula M. Escudero	Director of Finance/Comptroller
Dominic Chavez	Unrestricted Funds Manager
Stephanie Gonzales	Principal Financial Officer



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## INDEPENDENT AUDITOR'S REPORT

Mr. Wayne Johnson  
New Mexico State Auditor  
and  
The Board of Regents  
New Mexico Highlands University

### Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of New Mexico Highlands University (the University) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate discretely presented component units of the University, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and on pages 5 to 10 and the pension schedules on pages 52 to 53 for the University's participation in the Educational Retirement Board Pension Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements and the budgetary comparisons. The accompanying Schedule of Individual deposit Accounts and Schedule of Joint Powers Agreements, and the Multi-Year Capital Projects Funded by Special and Severance Tax Capital Outlay Appropriations, as required by 2.2.2 NMAC and the Schedule of Expenditures of Federal awards as required by 2 US Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules required by 2.2.2 NMAC and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United states of America. In our opinion, the Schedule of Individual Deposit accounts, Schedule of Joint Powers Agreements, and the Multi-Year Capital Projects Funded by Special and Severance Tax Capital Outlay Appropriations, and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018, on our consideration of the University’s internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University’s internal control over financial reporting and compliance.

*Ricci & Company, LLC*  
Albuquerque, New Mexico  
October 31, 2018

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Introduction**

The following discussion and analysis provides an overview of the financial position and analysis of New Mexico Highlands University. It is intended to make the University financial statements easier to understand and communicate our financial situation in an open and accountable manner. It provides an objective analysis of the "University's" position and results of operations as of and for the year ended June 30, 2018. University management has prepared the financial statements and the related note disclosures in addition to the discussion and analysis. University management is responsible for the completeness and fairness of this discussion and analysis and the financial statements.

**The University has one supporting Foundation, New Mexico Highlands University Foundation Inc., a not-for-profit organization. The financial information of the Foundation is presented in the financial statements as a "discretely presented component unit".**

**The University has one wholly owned research corporation, Highlands Stable Isotopes Corporation, a New Mexico University Research Park Act not-for-profit organization. The financial information of this corporation is presented in the financial statements as a "discretely presented component unit".**

Understanding the Financial Statements

**Financial highlights are presented in this discussion and analysis to help your assessment of the University's financial activities. Since this presentation includes highly summarized data, it should be read in conjunction with the financial statements which have the following five other parts.**

*Report of Independent Auditors* presents an unqualified opinion by our auditors (an independent certified public accounting firm (Ricci & Co., LTD) on the fairness (in all material respects) of our financial statements.

*Statement of Net Position* presents the assets, liabilities, and net position of the University at a point in time (June 30, 2018). Its purpose is to present a financial snapshot of the University. It aids readers in determining the assets available to continue the University's operations, how much the University owes to vendors, and investors, and a picture of net assets and their availability for expenditures in the University.

*Statement of Revenues, Expenses, and Changes in Net Position* presents the total revenues earned and expenses incurred by the University for operating, non-operating, and other related activities during a period of time (the year ended June 30, 2018). Its purpose is to assess the University's operating results. This statement begins with a presentation of the operating revenues received by the institution. Operating revenues are revenues arising from exchange (earned) transactions. In a public university, such as New Mexico Highlands University, income from state government appropriations, although not earned, are heavily relied upon to pay operating expenses for almost all instruction and general programs;

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NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*Statement of Revenues, Expenses, and Changes in Net Position (continued)*

However, government accounting standards define state appropriations income as non-operating revenue, causing the presentations of a large operating loss on the first page of the Statement of Revenues, Expenses and Changes in Net Position. The operating loss is offset by *non-operating revenues* in the next section of this statement, non-operating revenues and (expenses).

*Statement of Cash Flows* presents cash receipts and payments of the University during a period of time (year ended June 30, 2018). Its purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.

*Notes to the Financial Statements* present additional information to support the financial statements and are commonly referred to as Note(s). Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found.

We suggest that you combine this financial analysis with relevant nonfinancial indicators to assess the overall health of the University. Examples of nonfinancial indicators include trend and quality of applicants, freshman class size, student retention, number of undergraduates and graduates completing their degrees, and campus safety. Information about nonfinancial indicators is not included in this analysis, but can be obtained from the University's Office of Information (Sean Weaver – University Relations Director ([slweaver@nmhu.edu](mailto:slweaver@nmhu.edu))).

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Financial Highlights**

**CONDENSED STATEMENT OF NET POSITION**

<b>Net Position as of June 30, 2018 and 2017 (thousands)</b>		
	<b><u>2018</u></b>	<b><u>2017</u></b>
<b>Assets:</b>		
Current assets	\$17,884	\$16,107
Restricted cash	2,319	2,333
Assets held by others	2,350	2,320
Due from component unit	-	455
Endowment investments	4,596	4,197
Capital assets, net of accum. depr.	<u>96,338</u>	<u>99,017</u>
Total assets	<u>123,487</u>	<u>124,429</u>
Deferred outflows	<u>30,143</u>	<u>7,715</u>
<b>Liabilities:</b>		
Current liabilities	10,802	10,894
Non-current liabilities	24,324	25,370
Net pension & OPEB liabilities	<u>112,410</u>	<u>53,893</u>
Total liabilities	<u>147,536</u>	<u>90,157</u>
Deferred inflows	<u>8,509</u>	<u>2,799</u>
<b>Net Position:</b>		
Invested in capital assets, net of debt	71,213	73,330
Restricted for nonexpendable	9,738	9,322
Restricted for expendable	6,341	6,799
Unrestricted	<u>(89,707)</u>	<u>(50,090)</u>
Total net position	<u>\$ (2,415)</u>	<u>\$39,361</u>

**Discussion of Statement of Net Position**

**Current assets** increased 10% during the year. The ending balance of \$17.8 million consists primarily of cash/cash equivalents (\$9.3 million), receivables (\$7.6 million) and other (\$1 million). All cash and cash equivalents are essential and completely designated for ongoing operations including capital projects. The University attempts to maximize interest earnings by investing funds in the State Investment Council and with the State of New Mexico Local Government Investment Pool. The University has abided by its short term and endowment investment policies, thereby, ensuring liquidity and safety. The University has implemented procedures to collect receivables in a timely manner and is well able to meet all its current financial obligations.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

<b>Activities for the years ended June 30, 2018 and 2017 (thousands)</b>		
	<b><u>2018</u></b>	<b><u>2017</u></b>
Operating revenues:		
Tuition and fees, net	\$18,739	\$ 15,020
Grants & contracts	16,164	14,802
Sales and services / other revenue	<u>3,892</u>	<u>4,546</u>
Total operating revenues	<u>38,795</u>	<u>34,368</u>
Operating expenses:		
Instruction and general	39,133	38,202
Other operating expenses	37,862	25,901
Depreciation	<u>4,801</u>	<u>4,571</u>
Total operating expenses	<u>81,797</u>	<u>68,674</u>
Operating loss	<u>(43,002)</u>	<u>(34,306)</u>
Non-operating revenue:		
State general fund appropriations	29,091	29,372
Interest and investment income	880	927
Capital appropriations	<u>1,007</u>	<u>2,849</u>
Total Non-operating revenue:	<u>30,978</u>	<u>33,148</u>
Income/(loss) before other revenue, expenses, gains, losses	<u>(13,032)</u>	<u>(1,158)</u>
Interest on indebtedness	(198)	(382)
Other	<u>124</u>	<u>260</u>
Total other	<u>(74)</u>	<u>(122)</u>
Decrease/increase in net position	<u>(12,099)</u>	<u>(1,280)</u>
Net position, beginning	39,361	33,044
Restatement	<u>(29,676)</u>	<u>7,597</u>
Net position, ending	<u>\$(2,414)</u>	<u>\$39,361</u>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

**Discussion of Statement of Revenues, Expenses and Changes in Net Position**

This statement shows the components that increased, in the aggregate. The University’s net position decreased by \$12.9 million during the year. Operating expenses (\$82.7 million) are subtracted from operating revenues (\$38.8 million), resulting in an “operating loss” (\$43.9 million). State general fund appropriations (\$29.1 million), are not included as operating revenue; however, it is reflected as non-operating revenue, because they are provided to the University without the state receiving commensurate goods and services in exchange. State general fund appropriations are essential for the University to carry out its instructional and public service mission. “Income/ (loss) before other revenue, expenses, gains and losses” was (\$13.9 million). \$1 million in capital appropriations revenues (federal and state funds designated for construction projects) resulted in a decrease in net position of ( \$12.9 million)

The state appropriation for general funds for year ended June 30, 2018 was \$29.1 million as compared to state appropriation for year ended June 30, 2017 at \$29.4 million.

<b>Analysis of Tuition and Fees Revenue (thousands)</b>				
	<u><b>2018</b></u>	<u><b>2017</b></u>	<u><b>Increase (Decrease)</b></u>	
Tuition	\$14,490	\$12,146	2,344	16.18%
Fees	<u>5,488</u>	<u>5,842</u>	<u>( 354)</u>	-6.45%
Subtotal	19,978	17,988	1,990	9.96%
Tuition discounts/allowance	<u>(1,239)</u>	<u>(2,968)</u>	<u>1,729</u>	-139.55%
Net	<u>\$18,739</u>	<u>\$15,020</u>	<u>3,719</u>	19.85%

Tuition and fees, net of discounts and allowances, increased by 19.85%. Tuition discounts and allowances are tracked individually by student and the annual expense decreased by 139%.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CONDENSED STATEMENT OF CASH FLOWS**

Statement of Cash Flows for the years ended June 30, 2018 and 2017 (thousands)		
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Net cash used by operating activities	\$(28,786)	\$(28,443)
Net cash provided by noncapital financing activities	29,381	29,629
Net cash flow provided by investment activities	312	4,016
Net cash used by capital & related financial activity	<u>(1,208)</u>	<u>(4,554)</u>
Net decrease in cash and cash equivalents	(302)	648
Cash and cash equivalents, beginning of year	<u>11,968</u>	<u>11,319</u>
Cash and cash equivalents, end of year	<u>\$ 11,666</u>	<u>\$ 11,967</u>

**Discussion of Statement of Cash Flows**

This statement shows the sources and uses of cash and cash equivalents in four standard categories. The University had a \$302 thousand net decrease during the year, resulting in an ending cash balance of \$11.6 million.

**Discussion of Budget Comparisons**

Included in this audit report are summary schedules of original budget, final budget, actual results and variances from the final budget. Schedules are prepared on the budgetary basis versus the accrual basis of accounting in a fund accounting format as required by the New Mexico State Auditor.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
STATEMENT OF NET POSITION  
June 30, 2018**

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
<b>ASSETS</b>			
Cash and Cash Equivalents			
Cash in bank	\$ 9,330,795	\$ -	\$ 744,669
Petty cash	15,659	-	-
Total cash and cash equivalents	9,346,454	-	744,669
Student accounts receivable (net of an allowance of \$6,055,832)	3,256,319	-	-
Grants receivable	3,019,662	-	-
Other receivables	1,318,281	-	2,597
Pledges receivable	-	-	70,000
Inventories	613,848	-	-
Prepaid assets	94,370	-	3,337
Short-term investments	234,978	-	-
<b>Total current assets</b>	17,883,912	-	820,603
Noncurrent Assets			
Restricted Cash	2,319,346	-	572,078
Pledges receivable	-	-	164,844
Life insurance	-	-	82,617
Assets held by others	2,350,169	-	-
Investments	4,595,902	-	7,996,014
Capital assets, net of accumulated depreciation	96,338,267	-	7,011,064
<b>Total noncurrent assets</b>	105,603,684	-	15,826,617
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions	29,680,316	-	-
Deferred outflows of resources related to OPEB liability	462,681	-	-
<b>Total deferred outflows of resources</b>	30,142,997	-	-
<b>Total assets and deferred outflows of resources</b>	\$ 153,630,593	\$ -	\$ 16,647,220
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 4,331,767	\$ -	\$ 15,102
Accrued compensated absences	720,425	-	-
Unearned revenue	4,411,299	-	-
Accrued interest payable	198,914	-	1,684
Bonds payable-current	1,140,000	-	-
Notes payable-current	-	-	182,753
<b>Total current liabilities</b>	10,802,405	-	199,539
Noncurrent Liabilities			
Accrued compensated absences	339,477	-	-
Due to university	-	-	-
Assets held for others	-	-	2,345,545
Bonds payable long-term portion	23,985,000	-	-
Notes payable-long term portion	-	-	1,096,021
Net pension liability	86,548,356	-	-
Net OPEB liability	25,861,352	-	-
<b>Total non-current liabilities</b>	136,734,185	-	3,441,566
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	2,622,918	-	-
Deferred inflows of resources related to OPEB liability	5,885,983	-	-
<b>Total deferred outflows of resources</b>	8,508,901	-	-
<b>Total liabilities and deferred inflows of resources</b>	156,045,491	-	3,641,105
<b>NET POSITION</b>			
Investment in capital assets, net of related debt	71,213,267	-	5,732,290
Restricted for			
Nonexpendable			
Restricted for scholarships and grants	9,737,702	-	4,433,937
Expendable			
Restricted for scholarships and grants	-	-	1,294,646
Loans	415,457	-	-
Capital projects	2,024,171	-	-
Debt service	3,901,839	-	-
Unrestricted	(89,707,334)	-	1,545,242
<b>Total net position (deficit)</b>	(2,414,898)	-	13,006,115
<b>Total net position, liabilities and deferred inflows of resources</b>	\$ 153,630,593	\$ -	\$ 16,647,220

The notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2018**

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
<b>OPERATING REVENUES</b>	\$ 19,978,715	\$ 29,077	\$ -
Tuition and fees	(1,239,227)	-	-
Tuition discounts and allowances	18,739,488	29,077	-
<b>Total operating revenues</b>			
Federal grants and contracts	10,904,237	-	-
State and local grants and contracts	2,482,370	-	-
Private grants and contracts	2,777,259	-	-
Sales and services of auxiliary enterprises	3,433,101	-	-
Contributions	-	-	943,579
Other	458,741	-	388,321
<b>Total operating revenues</b>	<u>38,795,196</u>	<u>29,077</u>	<u>1,331,900</u>
<b>EXPENSES</b>			
Instruction and general			
Instruction	20,672,918	-	-
Academic support	2,657,683	-	-
Student services	3,508,007	-	-
Institutional support	7,117,227	-	-
Operations and maintenance support	5,177,535	-	-
	<u>39,133,370</u>	-	-
Student social/cultural development	1,479,982	-	-
Research	1,231,576	-	-
Public service	7,638,131	-	-
Internal Services	32,602	-	-
Student aid grants and stipends	7,284,848	-	178,233
Auxiliary enterprises	3,794,808	-	-
Athletics	2,901,174	-	-
Renewals and replacement	1,950,320	-	-
Other expenditures	-	43,495	893,078
Pension expense	10,513,717	-	-
OPEB expense	565,481	-	-
Bad debt expense	469,565	-	-
Depreciation	4,801,882	-	57,698
<b>Total operating expenses</b>	<u>81,797,456</u>	<u>43,495</u>	<u>1,129,009</u>
Operating Gain (loss) income	<u>\$ (43,002,260)</u>	<u>\$ (14,418)</u>	<u>\$ 202,891</u>

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

	Institution Institution	Stable Isotopes Corporation	Highlands Foundation
Non operating revenues (expenses)			
State appropriations	\$ 29,090,900	\$ -	\$ -
State land, permanent fund and investment income	290,203	-	-
Interest and investment income	589,554	-	386,347
Unrealized gain on fair value adjustment	-	469,559	-
Other	-	245	-
<b>Net non-operating revenues</b>	<u>29,970,657</u>	<u>469,804</u>	<u>386,347</u>
<b>(Loss) income before other revenues, expenses, gains and losses</b>	<u>(13,031,603)</u>	<u>455,386</u>	<u>589,238</u>
Other revenues (expenses) and capital items			
Capital appropriations	1,006,862	-	-
Interest on indebtedness	(198,162)	-	-
Endowment income	123,615	-	-
<b>Total other revenues (expenses) and capital items</b>	<u>932,315</u>	<u>-</u>	<u>-</u>
<b>(Decrease) increase in Net Position</b>	<u>(12,099,288)</u>	<u>455,386</u>	<u>589,238</u>
Net Position (deficit)			
Net Position (deficit) - beginning of year - as previously stated	39,360,804	(455,386)	12,416,877
Restatement	(29,676,414)	-	-
Net Position (deficit) - beginning of year, as restated (see note 22)	<u>9,684,390</u>	<u>(455,386)</u>	<u>12,416,877</u>
<b>Net Position (deficit), end of year</b>	<u>\$ (2,414,898)</u>	<u>\$ -</u>	<u>\$ 13,006,115</u>

The Notes to the Financial Statements are an integral part of this statement.

**NEW MEXICO HIGHLANDS UNIVERSITY**  
**STATEMENT OF CASH FLOWS**  
**June 30, 2018**

	Primary Institution	Stable Isotopes Corporation	Highlands Foundation
<b>Cash Flows From Operating Activities</b>			
Tuition and fees	\$ 17,302,198	\$ -	\$ -
Grants and contracts	15,259,901	-	-
Sales and services	3,473,689	-	-
Other operating receipts	884,037	29,077	404,826
Payments to employees for salaries and benefits	(36,868,571)	-	-
Payments to suppliers	(28,837,611)	(43,495)	388,321
Payments to others	-	-	(750,090)
<b>Net cash provided by (used in) operating activities</b>	<b>(28,786,357)</b>	<b>(14,418)</b>	<b>43,057</b>
<b>Cash Flows From Noncapital Financing Activities</b>			
State appropriations	29,090,900	-	-
Land and permanent fund	290,203	-	-
<b>Net cash provided by noncapital financing activities</b>	<b>29,381,103</b>	<b>-</b>	<b>-</b>
<b>Cash Flows From Investment Activities</b>			
Investment income	188,035	-	386,347
Sale of investments	-	-	-
Purchases of investments	-	-	(228,771)
Change in cash surrender value of life insurance	-	-	(1,082)
Endowment expense	123,615	-	-
<b>Net cash provided by (used in) investment activities</b>	<b>311,650</b>	<b>-</b>	<b>156,494</b>
<b>Cash Flows From Capital and Related Financing Activities</b>			
State appropriations for capital projects	1,016,984	-	-
Cash paid for capital assets	(2,027,283)	-	-
Proceeds from long term debt borrowings	-	-	700,000
Repayments of bonds and notes payable	-	-	(190,457)
Interest payment on bonds	(198,162)	-	-
<b>Net cash used by capital and related financing activities</b>	<b>(1,208,461)</b>	<b>-</b>	<b>509,543</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(302,065)</b>	<b>-</b>	<b>709,094</b>
Restricted cash, beginning of year	2,333,338	-	248,858
Cash and cash equivalents, beginning of year	9,634,527	-	358,795
	11,967,865	-	607,653
Restricted cash, end of year	2,319,346	-	572,078
<b>Cash and cash equivalents, end of year</b>	<b>\$ 9,346,454</b>	<b>\$ -</b>	<b>\$ 744,669</b>
<b>RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH USED BY OPERATING ACTIVITIES</b>			
Operating (loss) income	\$ (43,002,260)	\$ (14,418)	\$ 202,891
Adjustments to reconcile operating (loss) income to net cash used by operating activities			
Depreciation expense	4,801,882	-	57,698
Bad debt expense	469,565	-	-
Pension expense	11,079,198	-	-
Unrealized gain on fair value adjustment	-	(469,559)	-
Investment fees	-	-	58,469
Loss on sale of art	-	-	8,915
Donated artwork	-	-	(122,095)
Other	-	(245)	-
Changes in assets and liabilities			
Receivables	(2,690,488)	-	(172,441)
Inventories	33,971	-	-
Other assets	124,617	-	(212)
Due from component unit	455,393	-	-
Accounts payable and accrued expenses	(505,026)	-	(15,641)
Assets held for others	(30,097)	-	25,473
Deferred revenue	389,821	-	-
Due to primary government	-	469,804	-
Compensated absences	87,067	-	-
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (28,786,357)</b>	<b>\$ (14,418)</b>	<b>\$ 43,057</b>

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Creation and Purposed Entity.*** New Mexico Highlands University (the University) formerly known as New Mexico Normal University, was established in 1893 when New Mexico was still a territory. The institution began operations in October 1898 and in 1917, the institution became a four-year teacher training college awarding the Bachelor of Arts degree. Graduate work in certain departments, leading to the degrees of Master of Arts and Master of Science, were added in the late 1920's and the mid-1950's, respectively. In 1941, the New Mexico Legislature changed the name of the institution to New Mexico Highlands University. The University's campus, including its golf course, encompasses approximately 176 acres in Las Vegas, in the northeastern portion of New Mexico.

***Governance.*** The University is controlled and managed by a Board of Regents consisting of five members appointed by the Governor, with the advice and consent of the New Mexico Senate, for a term of six years, except for the Student Representative, who serves for a term of two years. Not more than three of the Regents shall belong to the same political party at the time of their appointment. Four of the five members of the Board must be qualified electors of the State, and the fifth member shall be a member of the student body of the institution. The Board of Regents constitutes a body politic and corporate, and has the power to sue and be sued, to contract and be contracted with, and the title to all property belonging to the University is vested in this corporate body and successors.

***Basis of Accounting.*** For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated. Grant revenues are recognized as revenue after all eligibility requirements have been met.

***Basis of Presentation and Financial Reporting Entity.*** New Mexico Highlands University and its component units present their financial statements in accordance with Governmental Accounting Standards Board (GASB) 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; GASB 35 – Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities; GASB 37 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus; and GASB 38 – Certain Financial Statement Note Disclosures. This financial report provides an entity-wide perspective of the University's assets, liabilities, and net assets, revenues, expenses and changes in net assets, and cash flows.

The University has adopted Governmental Accounting Standards Board Statement No 39, determining whether certain organizations are component units, an amendment of GASB Statement 14 (GASB 39). GASB 39 provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as discretely presented component units based on the nature and significance of their relationship with the University. As required by GASB 14 and 39, these basic financial statements present the University and its component units for which the University is considered to be financially accountable. These were selected for inclusion based on criteria as set forth in GASB 14 and 39. In the financial statements, discrete presentation entails reporting component unit financial data in a column separate from the financial data of the University. The decision to include a potential component unit in the University's reporting entity is based upon several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following discretely presented component units are included in these financial statements.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

• **New Mexico Highlands Foundation, Inc. (Foundation)**

The Foundation was organized as a not-for-profit New Mexico corporation under Section 501(c) (3) of the Internal Revenue Code. The Foundation receives support from contributions, earnings on investments and rental of real estate. The Foundation does issue separate financial statements.

• **Highlands Stable Isotopes (HSI)**

Highlands Stable Isotopes Corporation was granted all of the powers available to it pursuant to paragraph 21-28-6 NMSA 1978 of the University – Research Park and Economic Development Act. The new corporation was filed under the New Mexico Non-profit Corporation Act and is seeking Section 501 (c) (3) of the Internal Revenue Code of 1986 statutes. The purpose of the corporation is to conduct research and research commercialization in accordance with the needs of the University. Highlands Stable Isotopes Corporation does issue separate financial statements.

**Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Budget.** The University follows the requirements established by the New Mexico Higher Education Department (HED) in formulating its budgets and in exercising budgetary control. It is through the HED's policy that, when the appropriation has been made to the University, its Board of Regents can, in general, adopt an operating budget within the limits of available income.

*Procedures for Approval of Operating Budgets*

1. The institution submits an original budget approved by the institution's regents to the HED's office by May 1st.
2. The HED meets in June and acts on approval of the budgets.
3. The budgets, as approved by the HED, are transmitted to the Budget Division of the Department of Finance and Administration for official approval prior to July 1st.

Unexpended state appropriations do not revert to the State of New Mexico at the end of the fiscal year, and are available for expenditures to the University in subsequent years pursuant to the General Appropriation Act of 2004, Section 4, J (Higher Education).

**Budgetary Control.** Total expenditures or transfers may not exceed the amount shown in the approved budget. Expenditures used as the items of budgetary control are as follows: (1) unrestricted and restricted expenditures are considered separately; (2) total expenditures in instruction and general; (3) total expenditures of each budget function in current funds other than instruction and general; and (4) within the plant funds budget, the items of budgetary control are major projects, library bonds, equipment bonds, minor capital outlay, renewals and replacements, and debt service. Budget revisions must be approved by the executive secretary of the HED and then by the Budget Division of the Department of Finance and Administration.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Accompanying Schedules of Budget and Actual, for year ended June 30, 2018, (the “schedule”) are prepared on the basis of accounting prescribed by the State of New Mexico, HED. HED requires budgets for combined revenues and expenditures, current unrestricted instruction and general, and current restricted instruction and general on a basis consistent with the financial reporting model used by the University prior to implementation of GASB Statements No. 34 and 35. Additions to capital assets and debt principal retirements are reported as expenditures on the budget basis, but not on the basis required by generally accepted accounting principles (GAAP). Depreciation expense, scholarship allowance, Perkins Loans/Endowment Scholarship and Endowment/Agency expenditures are GAAP requirements not included on the budget basis submitted to HED.

**Cash and Cash Equivalents.** For purposes of the statement of cash flows, cash and cash equivalents include demand, savings, and money market accounts with an original maturity of 3 months or less.

**Investments.** The University implemented Governmental Accounting Standard No. 72, *Fair Value Measurements and Application*. This standard generally requires investments to be measured at fair value. The statement also requires the disclosures in relation to fair value measurements, the fair value hierarchy and valuation techniques. The University also early adopted Governmental Accounting Standards No. 79, *Certain External Investment Pools and Pool Participants* conforming to the early adoption of the standard by the State Treasurer. This standard allows the State Treasurer and Pool Participants to report qualifying short term investments at amortized cost rather than adjusting such assets to fair value each reporting period. Accordingly, the short-term investments in the State Treasurer’s Local Government Investment Pool (LGIP) are reported at amortized cost, which approximates fair value. The University’s investment assets include endowments and assets held by others in the Foundation. All investments are measured at fair value.

**Inventory.** Inventories of supplies and materials held for sale or use are stated substantially at the lower of cost (first-in, first-out) or market value.

**Income Taxes.** The University, as an instrumentality of the State of New Mexico, is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Contributions to the University are deductible by donors as provided under Section 170 of the Internal Revenue Code.

**Accounts Receivable.** The University records student tuition and fees and student accounts receivable at rates established at the time a student registers for classes. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Provision for uncollectible student accounts is recorded to maintain an adequate allowance for anticipated losses.

**Unearned Revenue.** Revenue for each academic session is reported within the fiscal year during which the session is completed. Revenues for the summer session starting in May 2018 are shown as unearned revenue in the accompanying financial statements since the session was not completed at June 30, 2018. Unearned revenues also include amounts received from grant and contract sponsors that have not been earned.

**Investments.** Investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the statement of net assets.

STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets Net of Accumulated Depreciation.** Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Livestock for educational purposes is recorded at estimated fair value.

For equipment (including software), the University's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The University does not capitalize historical treasures or works of art.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 15 years for infrastructure, 10 years for library books, 5 to 12 years for furniture, fixtures and equipment and 5 years for autos. At July 1, 2012, the University revised its policy for depreciating buildings by increasing the estimated useful life from 25 years to 50 years.

**Accrued Compensated Absences.** The University accounts for the accumulated vacation leave on the accrual basis in accordance with GASB 16. The current portion of the accumulated vacation leave is based on the previous year's data. Accrued vacation up to 240 hours is recorded at 100% of the employee's hourly wage. Compensatory time is accrued at a rate of one and one-half hours for each hour of employment for which overtime compensation is required for those employees covered by the Fair Labor Standards Act (FLSA).

**Noncurrent Liabilities.** Noncurrent liabilities include (1) principal amounts of revenue bonds payable and notes payable; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

**Pensions.** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Educational Retirement Plan (ERP) and additions to/deductions from ERP's fiduciary net position have been determined on the same basis as they are reported by ERP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Postemployment Benefits Other than Pensions (OPEB).** For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA's fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Net Position.** The University's net position is classified as follows:

**Invested in Capital Assets, Net of Related Debt.** This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

***Restricted Net Position - Nonexpendable.*** Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

The amount of net position restricted by enabling legislation is \$0 at June 30, 2018.

***Restricted Net Position - Expendable.*** Expendable restricted net positions are resources that the University is legally or contractually obligated to spend in accordance with imposed restrictions by third parties.

***Unrestricted Net Position.*** Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose.

These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted, and then toward unrestricted resources.

***Classification of Revenues.*** The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

***Operating Revenues.*** Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) most Federal, state and local grants and contracts and Federal appropriations, and (3) interest on institutional student loans.

***Non-operating Revenues.*** Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

***Classification of Expenses.*** The University classifies its expenses as either operating or non-operating expenses according to the following criteria:

***Operating expenses:*** Operating expenses include activities that have the characteristics of exchange transactions, such as (1) employee salaries, benefits, and related expenses; (2) scholarships and fellowships, net of scholarship discounts and allowances; (3) utilities, supplies, and other services; (4) professional fees; and (5) depreciation expenses related to property, plant, and equipment.

***Non-operating expenses:*** Non-operating expenses include activities that have the characteristics of non-exchange transactions, such as interest on capital asset-related debt and other expenses that are defined as non-operating expenses by GASB 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB 34.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

**NOTE 2. CASH AND CASH EQUIVALENTS**

*Special Appropriation.* The University receives special appropriations during the year. When an expense is incurred that can be paid using either unrestricted or special appropriation resources, the University's policy is first apply the expense toward the special appropriation. The special appropriation funds are non-reverting and were spent during the year.

Cash and cash equivalents include cash on hand, cash in banks, certificates of deposit with various financial institutions, and investment in the New Mexico Treasurer Local Government Investment Pool

	New Mexico Highlands University	Component Unit NMHU Foundation
Petty Cash	15,659	-
Bank Deposits	9,330,795	744,669
Cash and Equivalents	9,346,454	744,669
State Treasurer Local Government Investment Pool	234,978	-
<b>Total</b>	<u>9,581,432</u>	<u>744,669</u>

*Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Section 6-10-17, New Mexico Statutes requires that all depositories of the University provide collateral equal to at least one-half of the amount of uninsured public monies on deposit. Collateral requirements may be greater depending on the specific bank holding public funds. Per State Auditor's Rule 2.2.2.10 N. Public Monies: Cash on deposit with the State Treasurer does not require disclosure of specific pledged collateral for amounts held by the State Treasurer.

As of June 30, 2018, \$0 of the University's bank balance of \$9,832,588 was exposed to custodial credit risk.

*Credit Risk.* The University has money market funds and investments in the State Treasurer Local Government Investment Pool that are considered cash. As of June 30, 2018, the University's money market accounts are backed by commercial paper and other debt instruments that are rated AAA by Moody's Investor Service.

*Interest Rate Risk.* The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*State Treasurer Local Government Investment Pool (LGIP).* As of June 30, 2018, the State Treasurer Investment Pool was paying the University 1.81186834 percent per annum. The interest rate is determined by the State Treasurer.

The New Mexico State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government.

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2018**

**NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)**

The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The reader should examine the State Treasurer's separately issued financial statements for such disclosures.

The University adopted GASB 40, Deposit and Investment Risk Disclosures, an amendment of GASB Statement 3. The GASB 40 statement addresses common deposit and investment risk related to custodial credit risk, credit risk, concentration of credit risk, interest rate risk and foreign currency risk. It also requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates as well as identification of deposit and investment policies related to the risks.

The pool does not have unit shares. Per section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the perspective amounts deposited in the fund and the length of time the amounts fund was invested; and participation is voluntary. The rating of the investments is AAAM by Standard & Poor's and the weighted average maturity is 44 days at reset WAM(R) and 77 days at final WAM(F).

**NOTE 3. GRANTS RECEIVABLE**

As of June 30, 2018, grants receivables consisted of the following:

Federal grants	\$ 1,074,540
State grants	1,527,958
Private grants	<u>417,164</u>
<b>Total grants receivable</b>	<u><u>\$ 3,019,662</u></u>

**NOTE 4. OTHER RECEIVABLES**

Other Receivables as of June 30, 2018, consisted of the following:

	New Mexico Highlands University	NMHU Foundation
Perkins loan receivable	\$ 416,628	-
Due from State of New Mexico	273,534	-
Other	<u>628,119</u>	<u>70,000</u>
<b>Other Receivables</b>	<u><u>\$ 1,318,281</u></u>	<u><u>70,000</u></u>

The Due from State of New Mexico consists of amount due for capital projects as of June 30, 2018.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

**NOTE 5. INVENTORIES**

Inventories as of June 30, 2018, consisted of the following:

Bookstore	\$ 92,684
Physical Plant	179,361
Athletics	312,490
Golf course	<u>29,313</u>
<b>Total inventory</b>	<b><u>\$ 613,848</u></b>

**NOTE 6. INVESTMENTS**

The University's investments are held at the State Investment Council. The University's monies are invested in accordance with 6-8-9 NMSA 1978. The State Investment Council issues a separate, publicly available financial report that includes financial statements and required supplementary information.

The Foundation has no limitations on the types of investments or deposits it can make within the scope of its investment policy.

At June 30, 2018, investments of the University and its components units are summarized as follows:

	New Mexico Highlands University	Component Unit NMHU Foundation
State land grant permanent fund	\$ -	-
Cash & money market funds	-	142,504
Mutual funds	-	2,795,355
Common stocks	3,469,091	3,166,348
U.S. Treasury and other federal agencies	-	581,321
U.S. Corporate bonds	1,126,811	310,486
Certificate of deposit	-	1,000,000
Other	<u>-</u>	<u>-</u>
<b>Total investments</b>	<b><u>\$ 4,595,902</u></b>	<b><u>7,996,014</u></b>

**Interest Rate Risk.** The University does not have a provision in its formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

**NOTE 6. INVESTMENTS (CONTINUED)**

**Credit Risk.** The University has an investment policy that requires an allocation percentage of a maximum of 75% of the funds will be invested and a minimum of 35% in both equities and fixed income securities. University bond holdings are held by the State Investment Council (SIC). Please refer to the SIC’s separately issued financial statements for complete disclosures on credit risk.

**Foundation Interest Risk.** Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2018, the Foundation had the following investments subject to interest rate risk:

	<u>Maturities</u>	<u>Fair Value</u>
US Obligations		
Treasury and Agency	06/30/18-08/15/26	\$581,321
US Corporate Bonds	12/11/17-07/15/22	\$310,486

The Foundation does not have a policy that manages its exposure to fair value losses arising from increasing interest rates.

**Foundation Credit Risk.** As of June 30, 2018, the Foundation had the following investments subject to investment rate risk:

	<u>Rating</u>	<u>Fair Value</u>
U.S. Agency Obligations	AA+	\$581,321
U.S. Corporate Bonds	AA+/BBB+	\$310,486

The endowment spending policy is in concert with the long-term endowment management philosophy of the University, which is to preserve the permanent viability of the endowment. The University and the Foundation supports vital scholarship and other programs from earning of its endowment. These programs are in concert with provisions established by donors of the endowment.

Net appreciation/depreciation on donor-restricted endowments and related investment income are recorded as an increase or decrease in temporarily restricted net assets until the amount is expended in accordance with donor specifications and in accordance with the State of New Mexico Uniform Prudent Management of Institutional Funds Act. (UPMIFA) (Chapter 46, Article 9A, NMSA 1978). During the current year, donor-restricted endowments had net appreciation of \$170,397 and investment income of \$215,950.

Both the University and the Foundation hold nonexpendable endowments that generate income available for authorization for expenditure by a governing board. The amount available at June 30, 2018 is \$4,650,469 at the Foundation and \$9,260,793 at the University.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

**NOTE 7. FAIR VALUE OF INVESTMENTS**

U.S. generally accepted accounting principles establish a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at June 30, 2017.

Investments held in cash and cash equivalents, certificates of deposit, and money market funds were valued using quoted market prices in active markets for identical assets under Level 1 of the hierarchy.

Investments in common stock, mutual funds, and debt securities are valued using quoted market prices in active markets for identical assets under Level 1 of the hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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**NOTE 7. FAIR VALUE OF INVESTMENTS (CONTINUED)**

The following table represents the fair value measurements of the assets and liabilities at June 30, 2018:

	<u>Fair Value</u>	<b>Foundation</b>		
		<b><u>Fair Value Measurements Using</u></b>		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At June 30, 2017				
Common stock	\$ 3,166,348	3,166,348	-	-
Cash and money market funds	142,504	142,504	-	-
U.S. Treasury	581,321	581,321	-	-
Certificates of deposit	1,000,000	1,000,000	-	-
U.S. corporate bonds	310,486	-	310,486	-
Mutual funds	2,795,355	2,795,355	-	-
Other	-	-	-	-
	<u>\$ 7,996,014</u>	<u>7,685,528</u>	<u>310,486</u>	<u>-</u>

	<u>Fair Value</u>	<b>University</b>		
		<b><u>Fair Value Measurements Using</u></b>		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At June 30, 2017				
Common stock	\$ 3,469,091	3,469,091	-	-
U.S. corporate bonds	1,126,811	-	1,126,811	-
State Land Grant Permanent Fund	-	-	-	-
	<u>\$ 4,595,902</u>	<u>3,469,091</u>	<u>1,126,811</u>	<u>-</u>

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**NOTE 8. ASSETS HELD BY OTHERS**

As of June 30, 2018, assets held by others and restricted cash consist of the following:

	<u>University</u>	<u>Foundation</u>
Foundation Endowment	\$ 2,345,545	\$ -
Debt service reserves held in restricted cash	2,319,346	572,078
	<u>\$ 4,664,891</u>	<u>\$ 572,078</u>

**NOTE 9. CAPITAL ASSETS**

The following is a summary of changes in capital assets during the year ended June 30, 2018.

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018
Capital assets not being depreciated	As restated			
Land	3,279,414	-	-	\$ 3,279,414
Artwork	688,223	-	-	688,223
Patents	73,686	-	-	73,686
Construction-in progress	-	522,481	-	522,481
<b>Total capital assets not being depreciated</b>	<b>\$ 4,041,323</b>	522,481	-	<b>\$ 4,563,804</b>
Other capital assets:				
Land improvements	34,325,842	1,176,267	-	35,502,109
Buildings	132,470,540	-	-	132,470,540
Furniture, fixtures and equipment	10,210,598	130,320	(79,188)	10,261,730
Library materials	9,870,720	294,014	(99,240)	10,065,494
<b>Total other capital assets</b>	<b>\$ 186,877,700</b>	1,600,601	(178,428)	<b>188,299,873</b>
Less accumulated depreciation:				
Infrastructure	(16,654,265)	(2,137,158)	-	(18,791,423)
Buildings	(57,558,160)	(2,027,057)	-	(59,585,217)
Furniture, fixtures and equipment	(8,937,208)	(401,888)	79,188	(9,259,908)
Library materials	(8,752,323)	(235,779)	99,240	(8,888,862)
<b>Total accumulated depreciation</b>	<b>(91,901,956)</b>	<b>(4,801,882)</b>	178,428	<b>(96,525,410)</b>
<b>Other capital assets, net</b>	<b>94,975,744</b>	<b>(3,201,281)</b>	-	<b>91,774,463</b>
Capital assets summary				
Capital assets not being depreciated	\$ 4,041,323	522,481	-	4,563,804
Other capital assets	186,877,700	1,600,601	(178,428)	188,299,873
Total cost of capital assets	190,919,023	2,123,082	(178,428)	192,863,677
Less accumulated depreciation	(91,901,956)	(4,801,882)	178,428	(96,525,410)
<b>Capital assets, net</b>	<b>\$ 99,017,067</b>	<b>\$ (2,678,800)</b>	<b>\$ -</b>	<b>\$ 96,338,267</b>

Depreciation expense for the year totaled \$4,801,882.

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**NOTE 9. CAPITAL ASSETS (CONTINUED)**

**New Mexico Highlands University Foundation, Inc.**

	Balance, June 30, 2017	Additions	Deletions	Balance, June 30, 2018
Capital assets not being depreciated:				
Land	\$2,409,841	15,500	-	2,425,341
Artwork	3,391,774	114,599	(16,918)	3,489,455
Total capital assets not being depreciated	<u>5,801,615</u>	<u>130,099</u>	<u>(16,918)</u>	<u>5,914,796</u>
Capital assets being depreciated:				
Buildings held for lease to university	<u>2,250,237</u>	-	-	<u>2,250,237</u>
Less accumulated depreciation:				
Buildings	<u>(1,096,270)</u>	<u>(57,699)</u>	-	<u>(1,153,969)</u>
<b>Other capital assets, net</b>	<u>\$ 6,955,582</u>	<u>72,400</u>	<u>(16,918)</u>	<u>7,011,064</u>
Capital assets summary:				
Capital assets not being depreciated	5,801,615	130,099	(16,918)	5,914,796
Other capital assets, at cost	<u>2,250,237</u>	-	-	<u>2,250,237</u>
Total cost of capital assets	8,051,852	130,099	(16,918)	8,165,033
Accumulated depreciation	<u>(1,096,270)</u>	<u>(57,699)</u>	-	<u>(1,153,969)</u>
Capital assets, net	<u>\$ 6,955,582</u>	<u>72,400</u>	<u>(16,948)</u>	<u>7,011,064</u>

Depreciation expense for the year totaled \$57,699.

**NOTE 10. ACCOUNTS PAYABLE/ACCRUED AND OTHER LIABILITIES**

The \$4,331,767 amount consists of \$1,695,743 of accounts payables and other liabilities, and \$2,636,024 of tax liabilities.

Discretely Presented Component Unit – Foundation  
\$15,102 of accounts payables, and \$1,684 of accrued interest liabilities.

Discretely Presented Component Unit – Highlands Stable Isotopes  
\$0 of accounts payable liabilities.

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**NOTE 11. LONG-TERM LIABILITIES**

Long-term liability activity for the University for the Year ended June 30, 2018, is as follows:

	<u>Balance, June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<b><u>Balance, June 30, 2018</u></b>	<u>Amount Due Within One Year</u>
Bonds payable	\$ 26,230,000	-	(1,105,000)	<b>25,125,000</b>	1,140,000
Accrued Compensated balances	\$ 972,835	701,369	(614,302)	<b>1,059,902</b>	720,425

**New Mexico Highlands University Foundation, Inc.**

Long-term liability activity for the year ended June 30, 2018 is as follows:

	<u>Balance, June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2018</u>	<u>Amount Due Within One Year</u>
Notes Payable	\$ 769,231	700,000	(190,457)	1,278,774	182,753

**NOTE 12. BONDS PAYABLE AND NOTES PAYABLE**

The bonds are collateralized by substantially all unrestricted revenues, excluding state appropriations. Bonds payable consist of the following:

Systems refunding revenue bonds services, 2012, issued November 1, 2012, with interest ranging from .93% to 4.26% - final maturity 2034.	\$ 14,889,623
Systems refunding revenue bonds services, 2009A issued October 15, 2009, with interest ranging from 3.00% to 4.50% - final maturity 2021.	1,005,377
Systems refunding revenue bonds services, 2009B, issued October 15, 2009, with interest ranging from 5.32% to 6.07% - final maturity 2035.	<u>9,230,000</u>
Total bonds payable	25,125,000
Less amounts due within one year	<u>(1,140,000)</u>
Long term bonds payable	<b><u>\$ 23,895,000</u></b>

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**NOTE 12. BONDS PAYABLE AND NOTES PAYABLE (CONTINUED)**

Debt service requirements for future fiscal years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	1,140,000	1,129,678	2,269,678
2020	1,180,000	1,100,726	2,280,726
2021	1,735,000	1,057,929	2,792,929
2022-2026	6,890,000	4,313,153	11,203,153
2027-2031	8,330,000	2,515,809	10,845,809
2032-2034	<u>5,850,000</u>	<u>446,653</u>	<u>6,296,653</u>
Totals	<u>\$25,125,000</u>	<u>10,563,948</u>	<u>35,688,948</u>

The Foundation has an additional 6% notes payable to a bank related to its Rio Rancho land and building. During 2018 there was one draw of \$700,000 to initiate the loan, and no additional draws have been made. The loan is due in monthly installments of \$4,620 through December 2022, at which time the remaining balance is due. The terms of the note include a due on demand clause. Interest expense for the year totaled \$20,848.

Note payable	<u>Amount</u>
The note is secured with building and land current portion	<u>\$769,231</u>

The scheduled maturity of note payable for the Foundation is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	187,025	57,415	244,440
2020	194,959	49,481	244,440
2021	171,686	41,254	212,940
2022	<u>652,687</u>	<u>21,922</u>	<u>674,609</u>
	<u>\$ 1,206,357</u>	<u>170,072</u>	<u>1,376,429</u>

**NOTE 13. UNEARNED REVENUE**

As of June 30, 2018, unearned revenue consisted of the following:

Grants and Contract	\$ 952,986
Tuition	1,675,408
Housing/meal Plan	92,435
Other	<u>1,690,470</u>
<b>Total</b>	<u>\$ 4,411,299</u>

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**NOTE 14. RISK MANAGEMENT**

*State Risk Management Pool.* The University as a state university defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the State of New Mexico. Annual premiums are paid to the Office of Risk Management for coverage provided in the following areas:

1. Liabilities
  - Workers Compensation
  - General Liability
  - Law Enforcement
  - Medical Malpractice
  - Auto Liability
  - Civil Rights
  - State Unemployment Insurance
  
2. Property
  - Fine Arts
  - Blanket Property
  - Boiler & Machinery
  - Auto Physical Damage
  - Crime
  - Mexican Auto

There have been no uninsured losses in the last 3 years.

The Foundation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; and errors and omissions and natural disasters. The Foundation is insured through a private carrier for business and property risk and for director and officer liability insurance. There have been no significant reductions in coverage from the prior years and settlements have not exceeded coverage in the past three years.

**NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD**

*General Information about the Pension Plan*

*Plan Description.* The New Mexico Educational Retirement Act (ERA) was enacted in 1957. The act created the Educational Employees Retirement Plan (Plan) and, to administer it, the New Mexico Educational Retirement Board (NMERB). The Plan is included in NMERB's comprehensive annual financial report. The report can be found on NMERB's Web site at [https://www.nmerb.org/Annual\\_reports.html](https://www.nmerb.org/Annual_reports.html).

The Plan is a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs. Additional tenets of the ERA can be found in Section 22-11-1 through 22-11-52, NMSA 1978, as amended.

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**NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD (CONTINUED)**

The Plan is a pension trust fund of the State of New Mexico. The ERA assigns the authority to establish and amend benefit provisions to a seven-member Board of Trustees (Board); the state legislature has the authority to set or amend contribution rates and other terms of the Plan. NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico.

All accumulated assets are held by the Plan in trust to pay benefits, including refunds of contributions as defined in the terms of the Plan. Eligibility for membership in the Plan is a condition of employment, as defined in Section 22-11-2, NMSA 1978. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan, unless specifically excluded.

***Pension Benefit.*** A member's retirement benefit is determined by a formula which includes three component parts: 1) the member's final average salary (FAS), 2) the number of years of service credit, and 3) a 0.0235 multiplier. The FAS is the average of the member's salaries for the last five years of service or any other consecutive five-year period, whichever is greater.

***Summary of Plan Provisions for Retirement Eligibility.*** For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs:

- The member's age and earned service credit add up to the sum of 75 or more,
- The member is at least sixty-five years of age and has five or more years of earned service credit, or
- The member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on, or after, July 1, 2010 and before July 1, 2013. The eligibility for a member who either becomes a new member on or after July 1, 2010 and before July 1, 2013, or at any time prior to July 1, 2010 refunded all member contributions and then becomes re-employed after July 1, 2010 is as follows:

- The member's age and earned service credit add up to the sum of 80 or more,
- The member is at least sixty-seven years of age and has five or more years of earned service credit, or
- The member has service credit totaling 30 years or more.

Section 2-11-23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013 but terminated employment and subsequently withdrew all contributions, and returned to work for an ERB employer on or after July 1, 2013. These members must meet one of the following requirements.

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**NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD (CONTINUED)**

- The member's minimum age is 55, and has earned 30 or more years of service credit. Those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55.
- The member's minimum age and earned service credit add up to the sum of 80 or more. Those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits.
- The member's age is 67, and has earned 5 or more years of service credit.

**Forms of Payment.** The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.

**Benefit Options.** The Plan has three benefit options available.

- **Option A – Straight Life Benefit** – The single life annuity option has no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of member contributions plus interest less benefits paid prior to the member's death.
- **Option B – Joint 100% Survivor Benefit** – The single life annuity monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the same benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.
- **Option C – Joint 50% Survivor Benefit** – The single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.

**Disability Benefit.** An NMERB member is eligible for disability benefits if they have acquired at least ten years of earned service credit and is found totally disabled. The disability benefit is equal to 2% of the member's Final Average Salary (FAS) multiplied by the number of years of total service credits. However, the disability benefit shall not be less than the smaller of (a) one-third of the member's FAS or (b) 2% of the member's FAS multiplied by total years of service credit projected to age 60.

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**NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD (CONTINUED)**

**Cost of Living Adjustment (COLA).** All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit on July 1 following the later of 1) the year a member retires, or 2) the year a member reaches age 65 (Tier 1 and Tier 2) or age 67 (Tier 3).

- Tier 1 membership is comprised of employees who became members prior to July 1, 2010
- Tier 2 membership is comprised of employees who became members after July 1, 2010, but prior to July 1, 2013
- Tier 3 membership is comprised of employees who became members on or after July 1, 2013

As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.5%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.7%.

Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

**Refund of Contributions.** Members may withdraw their contributions only when they terminate covered employment in the State and their former employer(s) certification determination has been received by NMERB. Interest is paid to members when they withdraw their contributions following termination of employment at a rate set by the Board. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or for contributions held for less than one year

**Alternative Retirement Plan** – Effective October 1991, the New Mexico legislature established an Alternative Retirement Plan (ARP) through the enactment of ERA Sections 22-11-47 through 52 NMSA 1978 to provide eligible employees an election to establish an alternative retirement investment plan. In contrast to the defined benefit plan administered by NMERB, the ARP is a defined contribution plan. NMERB is the trustee of the ARP which is administered by two third-party contractors for NMERB. The two administrators approved to offer ARP plans to eligible participants are Teachers Insurance and Annuity Association (TIAA) and Fidelity Investments.

These administrators have the authority to perform record keeping, enrollment education services, and other administrative duties for the ARP. The administrators are delegated any and all powers as may be necessary or advisable to discharge their duties under the ARP and have certain discretionary authority to decide matters under the ARP. As the ARP trustee NMERB is responsible for selecting investment options that provide a prudent rate of return, and to ensure that all investments, amounts, property, and rights under the executed Plan-Trust are held for the exclusive benefit of Plan participants and their beneficiaries, as defined in the Plan Document.

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**NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD (CONTINUED)**

**Eligibility** – Certain employees of the University of New Mexico, New Mexico State University, New Mexico Institute of Mining and Technology, New Mexico Highlands University, Eastern New Mexico University, Western New Mexico University, Central New Mexico Community College, Clovis Community College, Luna Community College, Mesalands Community College, New Mexico Junior College, Northern New Mexico College, San Juan College and Santa Fe Community College are eligible to make an election to participate within ninety days of employment. Information about the ARP is distributed by the employer. Those who do not elect to participate in the ARP remain members of the regular defined benefit retirement plan.

Section 22-11-47(D) NMSA 1978 allows an ARP participant a one-time option to make an irrevocable switch to the defined benefit retirement plan after seven years of ARP participation.

**Form of Payment** - Retirement, death, and other benefits are based upon contributions made and earnings accumulated on those contributions, in accordance with the terms of the applicable vendor contracts and Internal Revenue Service Code. Retirement benefits shall, at the option of the employee, be paid in the form of:

- A lifetime income, if held in an annuity contract,
- Payments for a term of years, or
- A single-sum cash payment.

ARP retirement, death, and other benefits, including disability benefits, cannot be paid from the funds administered by NMERB.

**ARP Contributions** - For the year ended June 30, 201, colleges and universities contributed 10.90% of participating employees' gross salary to the ARP vendor on behalf of the participant, and 3% of the employees' gross salary to NMERB. The colleges and universities are responsible for submitting the balance of the employers' contribution, and the employees' contributions directly to the ARP vendors.

Employees participating in the ARP do not accrue rights to benefits in the defined benefit pension plan based on the 3% contributions to the Plan.

Employer contributions reported in the Statement of Changes in Fiduciary Net Position include amounts remitted on behalf of both the ARP defined contribution plan and the defined benefit plan. The 3% contribution remitted for fiscal years ended June 30, 2018 and 2017 were \$97,618 and \$91,654 respectively. The 10.90% contributions to the various carriers for the years ended June 30, 2018 and 2017 were \$354,679 and \$362,906, respectively.

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**NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD (CONTINUED)**

*Contributions.* For the fiscal years ended June 30, 2018 and 2017 educational employers contributed to the Plan based on the following rate schedule.

<b>Fiscal Year</b>	<b>Date Range</b>	<b>Wage Category</b>	<b>Member Rate</b>	<b>Employer Rate</b>	<b>Combined Rate</b>	<b>Increase Over Prior Year</b>
2018	7-1-17 to 6-30-18	Over \$20K	10.70%	13.90%	24.60%	0.00%
2018	7-1-17 to 6-30-18	\$20K or less	7.90%	13.90%	21.80%	0.00%
2017	7-1-16 to 6-30-17	Over \$20K	10.70%	13.90%	24.60%	0.00%
2017	7-1-16 to 6-30-17	\$20K or less	7.90%	13.90%	21.80%	0.00%

The contribution requirements are established in statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the New Mexico Legislature. For the fiscal years ended June 30, 2018 and 2017, the University paid employee and employer contributions of \$2,815,498 and \$2,106,038, which equal the amount of the required contributions for each fiscal year.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2018, the University reported a liability of \$86,548,356 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017 using generally accepted actuarial principles. The roll-forward incorporates the impact of the new assumptions adopted by the Board on April 21, 2017. There were no other significant events of changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2017. Therefore, the employer’s portion was established as of the measurement date of June 30, 2017. The University’s proportion of the net pension liability was based on a projection of the University’s long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions, actuarially determined. At June 30, 2017, the University’s proportion was 0.77877%, which was an increase of 0.0299% from its proportion measured as of June 30, 2016.

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**NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD (CONTINUED)**

For the year ended June 30, 2018, the University recognized pension expense of \$10,513,717. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 155,363	\$ 1,333,359
Changes of assumptions	25,265,166	-
Net difference between projected and actual earnings on pension plan investments	-	11,873
Changes in proportion and differences between Contributions and proportionate share of contributions	1,444,289	1,277,686
Employer’s contributions subsequent to the measurement date	<u>2,815,498</u>	-
<b>Total</b>	<u>\$ 29,680,316</u>	<u>\$ 2,622,918</u>

\$2,815,498 reported as deferred outflows of resources related to pensions resulting from the University’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 8,738,208
2020	9,984,097
2021	6,232,255
2022	<u>(712,660)</u>
	<u>24,241,900</u>

**Actuarial assumptions.** The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

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**NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD (CONTINUED)**

Inflation	2.50%										
Salary increases	3.25% composed of 2.50% inflation, plus a 0.75% productivity increase rate, plus a step-rate promotional increase for members with less than 10 years of service.										
Investment rate of return	7.25% compounded annually, net of expenses. This is made up of a 2.50% inflation rate and a 4.75 real rate of return.										
Average of Expected Remaining Service Lives	<table border="0" style="margin-left: 40px;"> <tr> <td style="text-align: right;">Fiscal year</td> <td style="text-align: center;"><u>2017</u></td> <td style="text-align: center;"><u>2016</u></td> <td style="text-align: center;"><u>2015</u></td> <td style="text-align: center;"><u>2014</u></td> </tr> <tr> <td style="text-align: right;">Service life in years</td> <td style="text-align: center;">3.35</td> <td style="text-align: center;">3.77</td> <td style="text-align: center;">3.92</td> <td style="text-align: center;">3.88</td> </tr> </table>	Fiscal year	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	Service life in years	3.35	3.77	3.92	3.88
Fiscal year	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>							
Service life in years	3.35	3.77	3.92	3.88							
Mortality	<p><b>Healthy males:</b> Based on the RP-2000 Combined Healthy Mortality Table with White Collar adjustments, not set back. Generational mortality improvements with Scale BB from the table’s base year of 2000.</p> <p><b>Healthy females:</b> Based on GRS Southwest Region Teacher Mortality Table, set back one year. Generational mortality improvements in accordance with Scale BB from the table’s base year of 2012.</p> <p><b>Disabled males:</b> RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB.</p> <p><b>Disabled females:</b> RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB.</p> <p><b>Active members:</b> RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table’s base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for preretirement mortality.</p>										
Retirement Age	Experience-based table rates based on age and service, adopted by the Board on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014.										
Cost-of-living increases	1.90% per year, compounded annually.										
Payroll growth	3.00% per year (with no allowance for membership growth).										
Contribution accumulation	The accumulated member account balance with interest is estimated at the valuation date by assuming that member contributions increased 5.50% per year for all years prior to the valuation date. Contributions are credited with 4.00% interest, compounded annually, applicable to the account balances in the past as well as the future.										
Disability incidence	Approved rates are applied to eligible members with at least 10 years of service.										

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**NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD (CONTINUED)**

Actuarial assumptions and methods are set by the Plan’s Board of Trustees, based upon recommendations made by the Plan’s actuary. The Board adopted new assumptions on April 21, 2017 in conjunction with the six-year actuarial experience study period ending June 30, 2016. At that time, the Board adopted several economic assumption changes, including a decrease in the inflation assumption from 3.00% to 2.50%. The 0.50% decrease in the inflation assumption also led to decreases in the nominal investment return assumption from 7.75% to 7.25%, the assumed annual wage inflation rate from 3.75% to 3.25%, the payroll growth assumption from 3.50% to 3.00%, and the annual assumed COLA from 2.00% to 1.90%

The long-term expected rate of return on pension plan investments was determined using a building-block approach that includes the following:

- Rate of return projections that are the sum of current yield plus projected changes in price (valuations, defaults, etc.)
- Application of key economic projections (inflation, real growth, dividends, etc.)
- Structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return</b>
Equities	33%	
Fixed income	26%	
Alternatives	40%	
Cash	1%	
<b>Total</b>	<b>100%</b>	<b>7.25%</b>

**Discount rate.** A single discount rate of 5.9% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.25%, and a municipal bond rate of 3.56%, net of expense. Based on the stated assumptions and the projection of cash flows, the plan’s fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2053. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the 2053 fiscal year, and the municipal bond rate was applied to all benefit payments after that date.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

Additionally, contributions received through Alternative Retirement Plan (ARP) are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five-year contribution history.

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**NOTE 15. PENSION PLAN – EDUCATION RETIREMENT BOARD (CONTINUED)**

*Sensitivity of the University’s proportionate share of the net pension liability to changes in the discount rate.* The following presents the University’s proportionate share of the net pension liability calculated using the discount rate of 5.90 percent, as well as what the University’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.90 percent) or 1-percentage-point higher (6.90 percent) than the current rate:

	<b>1% Decrease <u>(4.90%)</u></b>	<b>Current Discount Rate <u>(5.90%)</u></b>	<b>1% Increase <u>(6.90%)</u></b>
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New Mexico Highland University’s Proportionate share of the net pension liability	\$ 112,664,437	\$ 86,548,356	\$ 65,200,586
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*Pension plan fiduciary net position.* Detailed information about the pension plan’s fiduciary net position is available in separately issued NMERB’S financial reports. The reports can be found on NMERB’s Web site at [https://www.nmerb.org/Annual\\_reports.html](https://www.nmerb.org/Annual_reports.html).

*Payables to the pension plan.* At June 30, 2018, the University reported a payable of \$597,456 for outstanding contributions due to ERB.

**NOTE 16. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

***General Information about the OPEB***

*Plan description.* Employees of the University are provided with OPEB through the Retiree Health Care Fund (the Fund)—a cost-sharing multiple-employer defined benefit OPEB plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). NMRHCA was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

NMRHCA is an independent agency of the State of New Mexico. The funds administered by NMRHCA are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. NMRHCA’s financial information is included with the financial presentation of the State of New Mexico.

*Benefits provided.* The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.

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**NOTE 16. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

*Employees covered by benefit terms.* At June 30, 2017, the Fund’s measurement date, the following employees were covered by the benefit terms:

Plan membership	
Current retirees and surviving spouses	51,208
Inactive and eligible for deferred benefit	11,478
Current active members	<u>97,349</u>
	<u>160,035</u>
Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	21,004
Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	<u>48,756</u>
	<u>97,349</u>

*Contributions.* Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee’s salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer’s participation in the Fund. Contributions to the Fund from the University were \$462,681 for the year ended June 30, 2018.

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.* At June 30, 2018, the University reported a liability of \$25,861,352 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The University’s proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2017. At June 30, 2017, the University’s proportion was 0.57068 percent.

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**NOTE 16. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

For the year ended June 30, 2018, the University recognized OPEB expense of \$565,481. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred		Deferred
	<u>Outflows of</u>	<u>Inflows of</u>
	<u>Resources</u>	<u>Resources</u>
Difference between expected and actual experience	\$ -	\$ 992,422
Changes of assumptions	-	4,521,528
Differences between actual and projected earnings on OPEB plan investments	-	372,033
Employer's contributions made subsequent to the measurement date	<u>462,681</u>	-
<b>Total</b>	<u>\$ 462,681</u>	<u>\$ 5,885,983</u>

Deferred outflows of resources totaling \$462,671 represent University contributions made subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in OPEB expense as follows:

Year ended June 30:

2019	\$ (1,251,401)
2020	(1,251,401)
2021	(1,251,401)
2022	(1,251,401)
2023	<u>(880,379)</u>
	<u>(5,885,983)</u>

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**NOTE 16. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

*Actuarial assumptions.* The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

Valuation Date	June 30, 2017
Actuarial cost method	Entry age normal, level percent of pay, calculated on individual employee basis
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation	2.50% for ERB; 2.25% for PERA
Projected payroll increases	3.50%
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Health care cost trend rate	8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare medical plan costs

*Rate of Return.* The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions.

The best estimates for the long-term expected rate of return is summarized as follows:

<b>Asset Class</b>	<b>Long-Term Rate of Return</b>
U.S. core fixed income	4.1%
U.S. equity - large cap	9.1
Non U.S. - emerging markets	12.2
Non U.S. - developed equities	9.8
Private equity	13.8
Credit and structured finance	7.3
Real estate	6.9
Absolute return	6.1
U.S. equity - small/mid cap	9.1

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**NOTE 16. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

**Discount Rate.** The discount rate used to measure the Fund’s total OPEB liability is 3.81% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2028. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029. Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus, 3.81% is the blended discount rate.

**Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates.** The following presents the net OPEB liability of the University, as well as what the University’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.81 percent) or 1-percentage-point higher (4.81 percent) than the current discount rate:

	<b>1% Decrease <u>(2.81%)</u></b>	<b>Current Discount Rate <u>(3.81%)</u></b>	<b>1% Increase <u>(4.81%)</u></b>
New Mexico Highland University’s proportionate share of the net OPEB liability	\$ 31,369,417	\$ 25,861,352	\$ 21,539,780

The following presents the net OPEB liability of the University, as well as what the University’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<b>1% Decrease <u>          </u></b>	<b>Current Trend Rates <u>          </u></b>	<b>1% Increase <u>          </u></b>
New Mexico Highland University’s proportionate share of the net OPEB liability	\$ 21,996,860	\$ 25,861,352	\$ 28,874,699

**OPEB plan fiduciary net position.** Detailed information about the OPEB plan’s fiduciary net position is available in NMRHCA’s audited financial statements for the year ended June 30, 2017.

**Payable Changes in the Net OPEB Liability.** At June 30, 2018, the University reported a payable of \$82,263 for outstanding contributions due to NMRHCA.

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**NOTE 17. WORKERS' COMPENSATION INSURANCE**

The University is insured for workers' compensation through the State of New Mexico General Services Department-Risk Management Division (RMD). RMD provides workers' compensation for all employees as required by state law. The University remits payments to RMD for this coverage based on premium statements received from RMD. Total expense for the year ended June 30, 2018, was \$147,600 which has been charged to expenditures.

**NOTE 18. LEASES**

At June 30, 2018, the University had various operating lease arrangements summarized as follows:

**Operating Leases.** Rent expense for operating leases amounted to \$1,115,936 for the year ended June 30, 2018. Included in current year rent expense is a lease for a building owned by the Foundation in the amount of \$379,054. The lease agreement expires during the year ended June 30, 2018. There is also a second lease for a parking lot owned by the Foundation in the amount of \$37,200. The leases with the Foundation has been included in the minimum lease payments below.

**Minimum Lease Payments.**

The following is a schedule of future minimum lease payments for these leases at June 30, 2018:

<u>Year Ending</u> <u>June 30, 2018</u>	<u>Operating</u> <u>Leases</u>
2019	\$ 993,954
2020	993,954
2021	614,666
2022	<u>366,968</u>
	<u>\$ 2,969,542</u>

**NOTE 19. COMMITMENTS AND CONTINGENCIES**

**Commitments.** At June 30, 2018, the University had issued purchase orders for materials and services which were not received and thus not reflected as liabilities in the accompanying combined balance sheet. The appropriate amount of such commitments is detailed as follows:

Current/Loan Funds	\$ 1,556,649
Plant Funds	\$ 275,790

**Contingencies.** In February 2012, the University terminated its contract with Makwa Builders LLC ("Makwa") for construction of the client's Student Union Building (the Project), under a provision known as "termination for convenience." Under the "termination for convenience" provision, the University is responsible for compensating Makwa for work completed but not paid for through the date of termination, for reasonable overhead and profit, and for cost related to demobilization from the Project. On April 30, 2012, Makwa submitted a "termination for convenience statement for payment" which was in excess of

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**NOTE 19. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

what was due to Makwa. The University responded to Makwa's request for payment on August 10, 2012 stating that no money was owed to Makwa.

On August 31, 2012, Makwa submitted a "Notice of Claim" under the contract for payments owed in an amount exceeding \$3 million, and for tort claims related to the University's alleged defamation of Makwa. On September 10, 2012, the University rejected Makwa's claim for payment and proceeded to the next step outlined in the contract for "dispute resolution."

On October 3, 2012, Makwa filed Chapter 11 (reorganization) Bankruptcy. Makwa's initial filing listed between 50 and 99 creditors, \$50K in assets, and \$1M to \$10M in liabilities. On October 24, 2012, Makwa submitted an amended statement of financial affairs (SOFA) and listed NMHU as an unknown contingent.

There are thirteen lawsuits filed against Makwa. The majority of them involve violations of the "Little Miller Act of New Mexico." This Act protects subcontractors from general contractors withholding money for work completed and paid by the client. One of the initial actions taken by Makwa's attorney was to petition the Bankruptcy court to move all pending legal disputes under the Bankruptcy's court jurisdiction. To date, the majority of claims have been resolved either by mediation, arbitration, or out-of-court settlements.

As mentioned above, the dispute resolution processes outlined in the construction Agreement between Makwa and NMHU mandates participation in mediation and binding arbitration facilitated by the American Association of Arbitration (AAA). On January 31, 2013, NMHU and Makwa participated in mediation; whereby, Makwa reduced its initial claim of \$3.3M to a much lower amount; however, mediation has not formally concluded, so NMHU or Makwa are not permitted to publically state the amount.

During the mediation, it became apparent to NMHU and Makwa that all subcontractors' claims needed to be addressed by both parties in order to reach a settlement agreement based on the provisions of the "termination for convenience." NMHU has agreed to mediate with Makwa and all unresolved subcontractors so that both parties can resolve all the subcontractors' claims against Makwa, and ultimately NMHU and Makwa can reach a settlement agreement. This mediation was scheduled for November 6 – 8, 2013.

NMHU has participated in numerous other mediations with subcontractors and has successfully proven to mediatators and subcontractors both that NMHU has paid Makwa for services rendered through December 2011. NMHU and NMHU's contracted architectural firm, Studio Southwest Architects Inc. disputed the January and February 2012 pay applications submitted by Makwa.

NMHU has disputed Makwa submission for claims on "termination of convenience;" because Makwa's submission included costs that were not allowed and/or associated with the project. Secondly, NMHU is entitled to "off-sets" on items (i.e., "agreed upon deductive change orders and defective work performed by Makwa and its subcontractors.") NMHU has only agreed to pay for "**actual**" work completed (but not paid for through the date of termination), for reasonable overhead and profit, and for "**actual**" costs related to demobilization from the Project less NMHU's entitled "offsets."

Legal counsel advised that all appeals have been briefed at October 2017 and such appeals will take time to process. It is not possible to determine the outcome of this matter at the date of these financial statements.

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**NOTE 19. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

No amounts have been recorded in the June 30, 2018, financial statements for this potential contingency.

The University is a defendant in various legal actions arising from claims of wrongful termination and or discrimination. Management believes that those actions are without merit and the ultimate liability, if any, resulting from them will not materially affect the University's financial position or results of operations. At this point the likelihood of an unfavorable outcome is undeterminable.

**NOTE 20. RESEARCH COMMERCIALIZATION**

The University Board of Regents, in its meeting of May 7, 2009, approved and created "Highlands Stable Isotopes Corporation." The corporation was granted all of the powers available to it pursuant to paragraph 21-28-6 NMSA 1978 of the University – Research Park and Economic Development Act. The new corporation was filed under the New Mexico Non-profit Corporation Act and is classified as a public entity under section 501 (c) (3) of the Internal Revenue Code of 1986 status. The purpose of the corporation is to conduct research and research commercialization in accordance with the needs of the University.

On May 7, 2009, the Board of Regents entered into a Memorandum of Agreement with the corporation recognizing that the University has developed and patented Isotopes that have significant commercial potential. The agreement sets forth processes and structure where the patents can be licensed to other corporation(s) and other operational details.

On May 2015, the Board of Regents required the HSI board to downsize the operation staff and implement a solvency plan to address the significant negative fund balance. The board reduce the staff to the primary researcher on a part-time basis for the sole purpose is to answer technical questions from potential buyers of our patented products. On October 26, 2018 the Board of Regents voted to replace former members of the HIS board.

From inception, the University has advanced approximately \$1,488,000 to HSI to develop its patented isotopes. HSI recorded a gain from debt relief on the \$469,559 of reduction in amounts due to the University. The advances to HSI have been forgiven by the University due to the HSI's inability to generate the expected revenue to repay the advancements. Based on this the Highland Stable Isotopes has substantial doubt to continue as a going concern. The debt is forgivable by the university and does not conflict with the Anti-donation state policy as HSI was established as a Research and Development arm of the University.

**NOTE 21. LEASE WITH NEW MEXICO HIGHLANDS UNIVERSITY FOUNDATION**

The Foundation leases a building it owns in Rio Rancho, New Mexico to New Mexico Highlands University. The Foundation entered into a twenty-year operating lease agreement on January 30, 1997. Lease income for the year ended June 30, 2018, was \$158,423.

The Foundation has entered into a second operating lease agreement with Highlands University for the 8<sup>th</sup> Street Parking lot adjoining the campus. The Foundation purchased the property in 2014 and has entered into the lease on February 1, 2014, for a five-year period. Monthly rental is approximately \$3,100 per month. Rental income for the year ended June 30, 2018, was \$33,096.

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**NOTE 22. PRIOR PERIOD ADJUSTMENTS**

**Implementation of New Accounting Standards**

As a result of implementing GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, the University has restated the net position in the government-wide Statement of Net Position for the year ended June 30, 2017, as follows:

Net position as previously reported at June 30, 2017	\$ 39,360,804
Prior period adjustment-Implementation of GASB 75:	
Net pension liability (measurement date as of June 30, 2016)	(31,209,147)
Deferred outflows - University contributions made during fiscal year 2017	489,974
Prior period adjustment related to Capital Assets	<u>1,042,759</u>
Total prior period adjustment	<u>(29,676,414)</u>
Net position as restated June 30, 2017	<u>\$ 9,684,390</u>

The University has restated the Capital Asset beginning balance by a net amount of \$1,042,759, to correct the variances identified as a result of the University converting from a manually maintained spreadsheet to the Banner fixed asset module.

**NOTE 23. UNRESTRICTED NET POSITION SUPPLEMENTAL DISCLOSURE**

Unrestricted net position without the effects of the required liabilities, deferred outflows and deferred inflows recorded per GASB Statement 68 is presented below to provide additional information to users regarding the University's financial position:

Unrestricted net position (as stated in the statement of net position)	(\$49,720,348)
Add: Net effect of pension adjustments	<u>48,977,241</u>
Adjusted unrestricted net position	<u>\$ 743,107</u>

**NOTE 24. RECONCILIATION OF BUDGET BASIS TO GAAP**

	<b><u>Revenues</u></b>
Budget Basis Revenue	\$ 69,228,738
Loan	29,448
Agency	200,869
Endowments	<u>437,235</u>
Revenue per GAAP	<u>\$ 69,896,330</u>

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**NOTE 25. RECONCILIATION OF BUDGET BASIS TO GAAP (CONTINUED)**

	<u>Expenditures</u>
Budget Basis Expenditures	\$ 65,688,980
Agency	200,869
Loan	207,899
Endowment	16,800
Depreciation Expense	4,801,882
Pension Expense	10,513,717
OPEB Expense	<u>565,481</u>
Expenses per GAAP	<u>\$ 81,995,618</u>

**NOTE 26. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through October 31, 2018, the date at which the financials were available for issuance, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2018. Management reviews include the New Mexico Highlands Foundation, Inc. and Highlands Stable Isotopes, Inc. No such items have been reported through October 31, 2018.

**NOTE 27. NEW ACCOUNTING STANDARDS**

In August 2018, the GASB issued Statement No. 90, Majority Interests in an amendment of GASB Statements No. 14 and No. 6. The requirements of this statement are effective for periods beginning after December 15, 2018. Earlier application is encouraged. This statement is not applicable to the University.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. This statement is not applicable to the University.

In March 2018, the GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. This Statement applies to notes to financial statements of all periods presented. This standard will be implemented in a subsequent period.

In June 2017, the GASB issued Statement No. 87, Leases. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. This standard will be implemented in a subsequent period.

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**NOTE 27. NEW ACCOUNTING STANDARDS (CONTINUED)**

In May 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This statement is not applicable to the University.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The provisions of this Statement are effective for periods beginning after June 15, 2017. Earlier application is encouraged. The University has implemented this standard accordingly in the current year.

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. This standard will be implemented in a subsequent period.

In November 2016, the GASB issued Statement No. 83, Certain Asset Retirement Obligations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. This statement is not applicable to the University.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY  
Year ended June 30, 2018**

New Mexico Educational Retirement Board Pension Plan  
Schedule of Ten Year Tracking Data\* to last 10 Fiscal Years\*

	Fiscal year	2018	2017	2016	2015
	Measurement date	2017	2016	2015	2014
University's proportion of the net pension liability (assets)		0.77877 %	0.74889 %	0.7731 %	0.81023 %
University's proportionate share of net pension liability (assets)	\$	86,548,356	\$ 53,893,871	\$ 50,075,746	\$ 46,229,335
University's covered employee payroll	\$	20,870,492	\$ 20,870,492	\$ 21,108,107	\$ 24,563,545
University's proportionate share of net pension liability (assets) as a percentage of its covered employee payroll		414.69 %	258.23 %	237.23 %	188.20 %
Plan fiduciary net position as a percentage of the total pension liability		52.95 %	61.58 %	63.97 %	66.54 %

\* *Governmental Accounting Standards Board Statement No. 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the University is not available prior to fiscal year 2015, the year the statement's requirements became effective.

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF CONTRIBUTIONS -  
 Net Pension Liability  
 Year ended June 30, 2018**

New Mexico Educational Retirement Board Pension Plan  
 Schedule of Ten Year Tracking Data\* to last 10 Fiscal Years\*

	2018	2017	2016	2015
Statutory Required Contribution	\$ 2,815,498	\$ 3,085,048	\$ 3,486,299	\$ -
Contributions in Relation to the Statutorily Required Contribution	2,815,498	2,973,025	3,054,737	-
Contribution Deficiency (Excess)	<u>-</u>	<u>112,023</u>	<u>431,562</u>	<u>-</u>
University's Covered Payroll	<u>\$ 20,255,381</u>	<u>\$ 20,870,492</u>	<u>\$ 21,108,107</u>	<u>\$ 24,563,545</u>
Contributions as a percentage of Covered Payroll	13.90 %	14.24 %	14.47 %	0.00 %

\* *Governmental Accounting Standards Board Statement No. 68* requires ten years of historical information be presented;

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2018**

*Changes in Pension benefit provisions.* There were no modifications to the benefit provisions that were reflected in the actuarial valuation as of June 30, 2017.

*Changes in Pension assumptions and methods.* Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the Plan's actuary. The Board adopted new assumptions on April 21, 2017 in conjunction with the six-year actuarial experience study period ending June 30, 2016. At that time, The Board adopted a number of economic assumption changes, including a decrease in the inflation assumption from 3.00% to 2.50%. The 0.50% decrease in the inflation assumption also led to decreases in the nominal investment return assumption from 7.75% to 7.25%, the assumed annual wage inflation rate from 3.75% to 3.25%, the payroll growth assumption from 3.50% to 3.00%, and the annual assumed COLA from 2.00% to 1.90%.

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE OPEB LIABILITY  
 Year ended June 30, 2018**

New Mexico Retiree Health Care Authority OPEB Plan  
 Schedule of Ten Year Tracking Data\* to last 10 Fiscal Years\*

	<b>Fiscal year</b>	<b>2018</b>
	<b>Measurement date</b>	<b>2017</b>
University's proportion of the net OPEB liability (assets)		0.57068 %
University's proportionate share of net OPEB liability (assets)	\$	25,861,352
University's covered employee payroll	\$	23,772,516
University's proportionate share of net OPEB liability (assets) as a percentage of its covered employee payroll		108.79 %
Plan fiduciary net position as a percentage of the total OPEB liability		11.34 %

\* Governmental Accounting Standards Board Statement No. 75 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the University is not available prior to fiscal year 2018, the year the statement's requirements became effective.

*See Notes to Required Supplementary Information*

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF THE UNIVERSITY CONTRIBUTIONS - OPEB  
 June 30, 2018**

New Mexico Retiree Health Care Authority OPEB Plan  
 Schedule of Ten Year Tracking Data\* to last 10 Fiscal Years\*

	2018
Statutory Required Contribution	\$ 462,681
Contributions in Relation to the Statutorily Required Contribution	462,681
Contribution Deficiency (Excess)	<u>-</u>
University's Covered Payroll	<u><u>\$ 23,134,050</u></u>
Contributions as a percentage of Covered Payroll	2.00 %

\* Governmental Accounting Standards Board Statement No. 75 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the University is not available prior to fiscal year 2015, the year the statement's requirements became effective.

*See Notes to Required Supplementary Information*

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2018**

*Changes in OPEB benefit provisions* . There were no modifications to the benefit provisions that were reflected in the actuarial valuation as of June 30, 2017.

*Changes in OPEB assumptions and methods* . The PERA salary scale, inflation and payroll assumptions were updated to reflect assumptions used in the PERA June 30, 2016 pension valuation. The ERB salary scale, inflation and payroll assumptions were updated to reflect changes used in the ERB June 30, 2016 experience study pension valuation. Per capita costs were updated. Future trend for health costs were updated. Medical election assumptions were updated.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF BUDGETARY COMPARISONS - BUDGETARY  
BASIS COMBINED REVENUES AND EXPENDITURES  
BUDGET COMPARISON  
Year Ended June 30, 2018**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Beginning Fund Balance	\$ 15,515,624	\$ 9,039,093	\$ 9,039,093	\$ -
<b>Unrestricted &amp; Restricted Revenues</b>				
State general fund appropriations	29,110,730	29,116,190	29,090,900	(25,290)
Federal revenue sources	8,854,452	14,643,279	10,904,237	(3,739,042)
Tuition and fees	17,631,515	17,524,188	18,723,763	1,199,575
Land and permanent fund	220,801	258,431	290,203	31,772
Private grants/contracts	2,835,639	3,473,016	1,988,902	(1,484,114)
Sales & service	4,308,039	3,686,810	3,506,754	(180,056)
Government grants - state	3,811,562	2,716,247	2,482,370	(233,877)
Endowments and private gifts	-	-	-	-
Other	814,600	841,658	372,740	(468,918)
Capital outlay	5,557,690	6,593,488	1,668,746	(4,924,742)
Retirement of indebtedness	1,246,181	1,246,181	200,123	(1,046,058)
<b>Total revenues</b>	<b>74,391,209</b>	<b>80,099,488</b>	<b>69,228,738</b>	<b>(10,870,750)</b>
<b>Total Unrestricted &amp; Restricted Revenues</b>	<b>89,906,833</b>	<b>89,138,581</b>	<b>78,267,831</b>	<b>(10,870,750)</b>
<b>Unrestricted &amp; Restricted Expenditures</b>				
Instruction and general	\$ 40,446,181	\$ 41,087,980	\$ 39,133,370	\$ 1,954,610
Student social and cultural	1,531,454	1,756,640	1,479,982	276,658
Research	1,645,633	3,005,688	1,701,141	1,304,547
Public service	6,807,651	10,745,950	7,638,131	3,107,819
Internal service departments	33,040	70,677	32,602	38,075
Student aid	8,724,687	8,936,886	7,060,159	1,876,727
Auxiliary enterprises	4,019,002	3,883,143	3,593,939	289,204
Intercollegiate athletics	2,713,540	2,916,047	2,901,174	14,873
Capital outlay	2,260,735	3,814,704	2,026,254	1,788,450
Renewal and replacements	1,271,022	1,271,022	(75,934)	1,346,956
Retirement of indebtedness	510,000	2,298,487	198,162	2,100,325
<b>Total Unrestricted &amp; Restricted Expenditures</b>	<b>69,962,945</b>	<b>79,787,224</b>	<b>65,688,980</b>	<b>(14,098,244)</b>
<b>Net Transfers</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Change in net assets-budgetary basis	\$ 4,428,264	\$ 312,264	\$ 3,539,758	\$ 3,227,494
<b>Ending Fund Balance</b>	<b>\$ 19,943,888</b>	<b>\$ 9,351,357</b>	<b>\$ 12,578,851</b>	<b>\$ 3,227,494</b>

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
RESTRICTED CURRENT FUNDS  
SUMMARY OF INSTRUCTIONAL AND GENERAL  
REVENUES AND EXPENDITURES  
BUDGET COMPARISONS  
Year Ended June 30, 2018**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Tuition	\$ -	\$ -	\$ -	\$ -
Miscellaneous fees	-	-	-	-
Government appropriation - federal	-	-	-	-
Government appropriation - state	-	-	-	-
Government appropriation - local	-	-	-	-
Government grants - federal	330,421	275,498	270,796	(4,702)
Government grants - state	172,089	133,854	106,390	(27,465)
Contracts - local	-	-	-	-
Private grants/contracts	27,461	15,675	16,175	500
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales & service	-	-	-	-
Other sources	-	-	-	-
<b>Total revenues</b>	<u>529,971</u>	<u>425,027</u>	<u>393,360</u>	<u>(31,667)</u>
<b>Total unrestricted revenues</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Expenditures</b>				
Instruction	\$ 286,320	\$ 200,745	\$ 200,689	\$ 56
Academic support	44,154	23,773	23,252	521
Student services	139,479	127,012	117,379	9,633
Institutional support	26,560	55,469	46,405	9,064
Operation & maintenance of plant	33,458	18,028	15,182	2,846
<b>Total expenditures</b>	<u>\$ 529,971</u>	<u>\$ 425,027</u>	<u>\$ 402,907</u>	<u>\$ 22,120</u>
<b>Change in net assets-budgetary basis</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,547)</u>	<u>\$ (53,787)</u>

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF BUDGETARY COMPARISONS - BUDGETARY BASIS  
SUMMARY OF INSTRUCTIONAL AND GENERAL  
REVENUES AND EXPENDITURES  
BUDGET COMPARISONS  
Year Ended June 30, 2018**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Beginning Fund Balance	1,692,211	5,523,572	5,523,572	-
Revenues				
Tuition	\$ 13,865,650	\$ 13,257,267	\$ 13,251,160	\$ (6,107)
Miscellaneous fees	1,478,500	1,518,136	2,610,901	(1,092,765)
Government appropriation - federal	-	-	-	-
Government appropriation - state	26,216,760	26,216,760	26,216,769	(9)
Government appropriation - local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	366	(366)
Contracts - local	-	-	-	-
Private grants/contracts	-	-	-	-
Endowments	-	-	-	-
Land and permanent fund	220,801	258,431	290,203	(31,772)
Private gifts	-	-	-	-
Sales & service	1,500	1,662	11,073	(9,411)
Other sources	699,100	604,362	226,359	378,003
<b>Total revenues</b>	<u>42,482,311</u>	<u>41,856,618</u>	<u>42,606,831</u>	<u>(762,427)</u>
<b>Total Unrestricted Revenues</b>	<u>44,174,522</u>	<u>47,380,190</u>	<u>48,130,403</u>	<u>(762,427)</u>
Expenditures				
Instruction	\$ 20,868,331	\$ 21,300,520	\$ 20,472,229	\$ 828,291
Academic support	2,824,629	2,816,408	2,634,431	181,977
Student services	4,172,153	4,435,121	3,390,628	1,044,493
Institutional support	6,778,973	6,996,161	7,070,822	(74,661)
Operation & maintenance of plant	5,272,124	5,114,742	5,162,353	(47,611)
<b>Total expenditures</b>	<u>\$ 39,916,210</u>	<u>\$ 40,662,952</u>	<u>\$ 38,730,463</u>	<u>\$ 1,932,489</u>
<b>Net Transfers</b>	3,086,030	3,780,256	3,032,466	(747,790)
<b>Change in net assets-budgetary basis</b>	<u>(519,929)</u>	<u>(2,586,590)</u>	<u>843,902</u>	<u>(1,947,126)</u>
<b>Ending Fund Balance</b>	<u>\$ 1,172,282</u>	<u>\$ 2,936,982</u>	<u>\$ 6,367,474</u>	<u>\$ (1,947,126)</u>

The Notes to the Financial Statements are an integral part of this statement.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY SCHEDULE  
OF INDIVIDUAL DEPOSIT ACCOUNTS  
Year Ended June 30, 2018**

Funds on deposit	Pledged Collateral		Southwest	Wells Fargo	Community	State	Total
	Safekeeping Location	Type of Security	Capital Bank Las Vegas, NM	Albuquerque NM	1st Bank Las Vegas, NM	Treasurer Santa Fe, NM	
Demand deposits			\$ 746,976	\$ 1,304,112	\$ 7,279,708	\$ 234,978	\$ 9,565,774
FDIC insurance							
Demand deposits			(250,000)	(250,000)	(250,000)	-	(750,000)
<b>Total uninsured public funds</b>			<b>\$ 496,976</b>	<b>\$ 1,054,112</b>	<b>\$ 7,029,708</b>	<b>\$ 234,978</b>	<b>\$ 8,815,774</b>
Collateral			50%	50%	102%		
Requirement per section 6-10-17 NMSA			\$ 248,488	\$ 527,056	\$ 7,170,302	\$ -	\$ 7,945,846
Pledged collateral							
	GE ELEC CAP CORP FLOATER NOTE FNMA ARM	CUSIP #36966THT2			1,000,000		1,000,000
	GEN ELEC CAP FLOATER NOTE	FNMA			1,000,000		1,000,000
	LAS VEGAS NM CITY SCH DIST	CUSIP #51778FCU1			1,240,000		1,240,000
	SOUTHERN SANDOVAL NM ARROYO	CUSIP #843789FC7			450,000		450,000
	ALMAGORDO NM MUN SCD NO 001	CUSIP #011464FQ2			225,000		225,000
	FNMA POOL	CUSIP #31410LGN6			599,714		599,714
	FHBL				2,300,000		
	FNMA Pool				1,452,381		1,452,381
		CUSIP #31418ANZ7			2,865,000		
	FNMA POOL				516,447		
		CUSIP #31418ANZ7			1,875,000		1,875,000
	SOUTHERN SANDOVAL NM FLOOD CTL				100,000		100,000
		CUSIP# 843789EG9					0
	U.S TREASURY NOTE						
		CUSIP #912828C24			1,000,000		1,000,000
	GNMA-II				437,126		
		CUSIP #36202FX68			7,000,000		7,000,000
							0
	FHLB FIXED RATE NOTE						
		CUSIP #3130ADJR2			1,000,000		1,000,000
	FHLB FIXED RATE NOTE						
		CUSIP #3130AUQ5			1,000,000		1,000,000
	FHLB FIXED RATE NOTE						
		CUSIP #3130A8QS5			1,000,000		1,000,000
	Securities currently pledged by LOC		1,100,000				
	FNMA	CUSIP #3138EKFA8		37,015			
	FNMA	CUSIP #3138ETFL5		461,574			
	FNMA	CUSIP #3140F7Q51		605,491			
	FNMA	CUSIP #31418BTK2		84,205			84,205
			<b>1,100,000</b>	<b>1,188,284</b>	<b>25,060,668</b>	<b>-</b>	<b>27,348,952</b>
Deficiency / (Excess) of pledge Collateral over the required amount			<b>(851,512)</b>	<b>(661,228)</b>	<b>(17,890,366)</b>	<b>-</b>	<b>(19,403,106)</b>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)  
Year Ended June 30, 2018**

<u>Name of Bank</u>	<u>Account Type</u>	<u>Bank Balance</u>	<u>Book Balance</u>
Southwest Capital Bank - Las Vegas			
Accounts payable account	Interest bearing checking	\$ 434,293	176,293
Payroll account	Interest bearing checking	440,575	378,865
University wire-transfer account	Interest bearing checking	16,289	16,289
Cash receipts account	Interest bearing checking	100,179	143,387
Cashier's credit card account	Interest bearing checking	25,716	26,336
Direct lending account	Interest bearing checking	5,805	5,805
<b>Total</b>		<u>1,022,857</u>	<u>746,975</u>
Wells Fargo Bank - Albuquerque			
Rio Rancho business	Non-interest bearing checking	\$ 14,475	14,475
Rio credit card	Non-interest bearing checking	12,929	12,929
NMHU business	Non-interest bearing checking	761,245	761,245
Online payments	Non-interest bearing checking	450,843	474,616
NMHU golf course	Non-interest bearing checking	21,437	21,491
Farmington	Non-interest bearing checking	10,183	10,183
NMHU savings	Savings	9,173	9,173
<b>Total</b>		<u>1,280,285</u>	<u>1,304,112</u>
Community 1st Bank - Las Vegas			
NMHU golf course	Non-interest bearing checking	45,189	46,088
Capital outlay	Money market account	5,679,955	5,679,955
NMHU savings	Savings	1,553,665	1,553,665
<b>Total</b>		<u>7,278,809</u>	<u>7,279,708</u>
State Treasurer's Office			
Local government investments	Pooled	234,978	234,978
Cashier's cash		<u>15,659</u>	<u>15,659</u>
<b>Total cash and cash equivalents</b>		<u>\$ 9,832,588</u>	<u>9,581,432</u>

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS (CONTINUED)  
 Year Ended June 30, 2018**

As of June 30, 2018 cash and cash equivalents recorded in the Foundation's financial statements were as follows:

	<u>Community 1st Bank</u>
Cash and cash equivalents	
Cash and cash equivalents	\$ 261,805
Reconciling items	<u>-</u>
Cash and cash equivalents recorded in financial statements	<u><u>\$ 261,805</u></u>
Cash and cash equivalents balance	\$ 261,805
FDIC Insurance	<u>(250,000)</u>
Cash and cash equivalents recorded in financial statements	<u><u>\$ 11,805</u></u>

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The foundation does not have a policy for custodial credit risk. As of June 30, 2018, \$11,805 of the Foundation's bank balance was exposed to uninsured amounts. All of the Foundation's bank balances are held by Community 1st Bank in Las Vegas, New Mexico.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MULTIPLE-YEAR CAPITAL PROJECTS FUNDED  
BY SPECIAL AND SEVERANCE TAX CAPITAL  
OUTLAY APPROPRIATIONS  
Year Ended June 30, 2018**

<u>Projection Description</u>		<u>Authority Chapter</u>	<u>Laws</u>	<u>Appropriation Period</u>	<u>Expiration</u>	<u>Total Appropriation</u>
<b>General Obligation Revenue Bond</b>						
General Obligation 14-1303	Critical Infrasstructure Improve	Ch 65 Sec 10/C/3	2014	2015	6/30/2018	\$ 5,000,000
General Obligation 12-1246	Trolley Building	Ch 54 Sec 10/C/3	2012	2013	6/30/2016	6,000,000
General Obligation A14-1291	Library	Ch 65 Sec 10/B/2	2014	2015	6/30/2018	114,383
General Obligation A16-A5129	NMHU Rodgers Admin Bldg Renovate	Ch 82 Sec 10/C/5	2016	2016	6/30/2021	4,500,000
General Obligation GOB17 A5112	Library	Ch 82 Sec 10/B/2	2,016	2016	6/30/2021	\$ 103,065
	<b>Total General Obligation Revenue Bonds</b>					<u><u>15,717,448</u></u>
<b>Severance Tax Bond Proceeds</b>						
Severance Tax 15A-0982	Health & Safety Infrastructure Improve	Ch 3 Sec 36/2	2015	2015	6/30/2019	1,000,000
Severance Tax 16A-A2600	NMHU Athletics Department	Ch 81 Sec 27	2016	2016	6/30/2020	111,000
	<b>Total Severance Tax Bonds</b>					<u><u>\$ 1,111,000</u></u>
	<b>Total Capital Appropriations</b>					<u><u>\$ 16,828,448</u></u>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
MULTIPLE-YEAR CAPITAL PROJECTS FUNDED BY  
SPECIAL AND SEVERANCE TAX CAPITAL OUTLAY  
APPROPRIATIONS (CONTINUED)  
Year Ended June 30, 2018**

	<b>Bonds Sold To Date</b>	<b>Bonds Unsold</b>	<b>Amount Available</b>	<b>Prior Year Expenditures</b>	<b>Current Year Expenditures</b>	<b>Art in Public Places</b>	<b>Encumbered Amount</b>	<b>Current Year Revision Amount</b>	<b>Unencumbered Balance</b>
\$	5,000,000	-	5,000,000	4,866,336	133,664	-	-	-	-
	6,000,000	-	6,000,000	5,934,697	-	60,000	-	5,303	-
	114,383	-	114,383	88,921	25,462	-	-	-	-
	4,500,000	-	4,500,000	-	371,645	45,000	220,562	-	3,862,793
	103,065	-	103,065	-	6,367	-	-	-	96,698
	15,717,448	-	15,717,448	10,889,954	537,138	105,000	220,562	5,303	3,959,491
	1,000,000	-	1,000,000	563,161	372,482	-	48,970	-	15,387
	111,000	-	111,000	13,758	97,242	-	-	-	-
\$	1,111,000	\$ -	1,111,000	\$ 576,919	\$ 469,724	\$ -	\$ -	\$ -	15,387
\$	16,828,448	\$ -	16,828,448	\$ 11,466,873	\$ 1,006,862	\$ 105,000	\$ 220,562	\$ 5,303	3,974,878

STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2018

Federal Grantor/Program Title	CFDA#	Award/Sub Award #	Expenditures
Research and Development Cluster			
National Science Foundation			
Mathematical and Physical Sciences	47.049	DMR-1523611	613,520
Education and Human Resources	47.079	1658085	65,830
Passed Through University of New Mexico			
Office of Cyberinfrastructure	47.080	063026-8744	5,177
Office of Integrative Activities	47.083	063034-8744	13,929
<b>Total National Science Foundation</b>			<u>698,456</u>
Department of Health and Human Services National Institutes of Health			
Passed Through New Mexico State University			
Biomedical Research and Research Training	93.859	Q01677	184,237
<b>Total Department of Health and Human Services - National Institutes of Health</b>			<u>184,237</u>
Department of Defense U.S. Army Materiel Command			
Basic Scientific Research	12.431	W911NF-15-1-0009	61,199
<b>Total Department of Defense US Army Materiel Command</b>			<u>61,199</u>
United States Department of Interior			
Passed Through State of NM State University			
Cooperative Research and Training Programs - Resources of the National Park System			3,647
<b>Total Department of Defense US Army Materiel Command</b>			<u>3,647</u>
<b>Total Research and Development Cluster</b>			<u>947,539</u>
United States Department of Education			
Student Financial Aid Cluster			
Federal Work-Study Program - Office of Student Financial Assistance Programs	84.033	P033A132646	345,637
Federal PELL Grant Program - Office of Student Financial Assistance Programs	84.063	P063P130275	4,753,421
Federal Supplemental Educational Opportunity Grants - Office of Student Financial Assistance Programs	84.007	P007A132646	205,307
TEACH Grant Programs - Office of Student Financial Assistance Programs	84.379	P379T140275	35,204
Federal Direct Student Loans - Office of Student Financial Assistance Programs	84.268	P268K150275	10,758,891
<b>Total Student Financial Aid Cluster - US Department of Education</b>			<u>16,098,460</u>
United States Department of Education			
Overseas Program-Group Projects Abroad	84.021A	P021A170003	98,043
Higher Education_Institutional Aid	84.031C	P013M140020	557,182
Higher Education_Institutional Aid	84.031C	P031C160248	397,265
Minority Science and Engineering Improvement	84.120A	P120A160011	104,014
English Language Acquisition State Grants - Office of Elementary and Secondary Education	84.365Z	T365Z120020	23,844
English Language Acquisition State Grants - Office of Elementary and Secondary Education	84.365Z	T365Z160008	476,227
Passed Through University of New Mexico-Taos			
Higher Education_Institutional Aid	84.031S	P031S140070	163,421
Advanced Placement Program	84.330B	17-924-00295	151,489
<b>Total US Department of Education</b>			<u>1,971,485</u>

STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS (CONTINUED)  
Year Ended June 30, 2018

Federal Grantor/Program Title	CFDA#	Award/Sub Award #	
United States Department of Agriculture			
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	2014-38422-22463	16,501
Passed Through University of New Mexico-Taos			
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	2014-38422-22086	65,155
Hispanic Serving Institutions Education Grants - National Institute of Food and Agriculture	10.223	Q01821	47,407
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	16-DG-11031600-007	9,900
Southwest Forest Health and Wildfire Prevention - Forest Services	10.694	17-DG-11031600-053	140,722
Passed Through State of NM Energy, Minerals and Natural Resources Department			
Cooperative Forestry Assistance	10.664	18-521-0410-0018	171,225
<b>Total United States Department of Agriculture</b>			<u>450,910</u>
Department of Justice Office on Violence Against Women			
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525	2014-WA-AX-0003	92,145
<b>Total Department of Justice Violence Against Women Office</b>			<u>92,145</u>
Department of Health and Human Services			
Passed Through New Mexico Department of Health			
Injury Prevention and Control Research and State and Community Based Programs	93.136	17/665.0300.20185	440
Passed Through New Mexico Children's Youth and Families Department			
Foster Care Title IV-E-Administration for Children and Families	93.658	18-690-14787	1,607,598
Passed Through the University of Texas			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance -			
Substance Abuse and Mental Health Services Administration	93.243	UTA12-001073	10,253
Substance Abuse and Mental Health Services - Projects of Regional and National Significance -			
Substance Abuse and Mental Health Services Administration	93.243	UTA17-000809	10,879
<b>Total US Department of Health and Human Services</b>			<u>1,629,170</u>
Corporation of National and Community Service			
Passed Through New Mexico Department of Children Youth and Families			
Americorps Recover	94.006	16-631-7003-00063E	34,758
<b>Total Corporation for National and Community Service</b>			<u>34,758</u>
Department of Agriculture Rural Utilities Service			
Distance Learning and Telemedicine Loans and Grants	10.855	RUS-15-01-DLT	438,661
<b>Total Department of Agriculture Rural Utilities Service</b>			<u>438,661</u>
<b>Total Federal Awards Expended</b>			<u><u>21,663,128</u></u>

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
NOTES TO THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
June 30, 2018**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation.* The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes all federal assistance to the University that had activity during 2018 or accrued revenue at June 30, 2018. This schedule has been prepared on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenues are recorded for financial reporting purposes when the University has met the qualifications for the respective program.

**NOTE 2. CONTINGENCIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures, which may be disallowed by the grantor, cannot be determined at this time, although the University expects such amounts, if any, to be immaterial.

**NOTE 3. INDIRECT COST RATE**

The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE 4. FEDERAL LOAN PROGRAM**

Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule.

**NOTE 5. OTHER DISCLOSURES**

The University did not receive any non-cash assistance; there was no insurance in effect during the year and no federal loan guarantees outstanding at year-end.

STATE OF NEW MEXICO  
 NEW MEXICO HIGHLANDS UNIVERSITY  
 SCHEDULE OF JOINT POWER AGREEMENTS  
 Year Ended June 30, 2018

Joint Powers Agreement

<u>Participants</u>	<u>Responsible operating party</u>	<u>Beginning Date</u>	<u>Ending Date</u>	<u>Total Award</u>	<u>Portion \$ applicable to New Mexico Highlands University</u>	<u>Amount Contributed (FY18)</u>	<u>Audit Responsibility</u>	<u>Fiscal Agent</u>	<u>Description</u>
New Mexico State Investment Council	NMHU	2/2/2017	ongoing	Undetermined	Undetermined	\$398,735.94	NMHU	Steven Moise	NMHU appoints the SIC as the fiduciary authorized to invest long term reserves of NMHU and all investment income thereon (collectively the "Long-Term Reserves"), through SIC Long-Term Pooled Investment Funds (the "Pooled Investment Funds"). All right, title and interest in and to the Long-Term Reserves (including, without limitation, all interest earnings) will at all times be vested in NMHU.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*  
INDEPENDENT AUDITOR'S REPORT**

Board of Regents  
New Mexico Highlands University  
and  
Mr. Wayne Johnson  
New Mexico State Auditor

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and the respective budgetary comparisons for the General Fund of the State of New Mexico, New Mexico Highland University (University) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 31, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered the deficiency described in the

accompanying schedules of findings and questioned costs as 2018-002 and 2018-005 to be material weaknesses.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-004 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-003 to be instances of noncompliance.

### **Management's Response to Findings**

Management's response to the findings identified in our audit is described in the accompanying schedule of Findings and Questioned Costs. Management's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ricci & Company LLC*

Albuquerque, New Mexico  
October 31, 2018



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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY UNIFORM GUIDANCE  
INDEPENDENT AUDITOR'S REPORT**

Board of Regents  
New Mexico Highlands University  
and  
Mr. Wayne Johnson  
New Mexico State Auditor

**Report on Compliance for Each Major Federal Program**

We have audited the State of New Mexico, New Mexico Highlands University's (University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2018. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal status, regulations, and the terms and conditions of its federal awards to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

### **Opinion on Each Major Federal Program**

In our opinion the University complied, in all material respects, with the types of compliance requirements referred to above that could have a material effect on each of its major federal programs for the year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance which we consider to be a material weakness.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

***Ricci & Company, LLC***  
Albuquerque, New Mexico  
October 31, 2018

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2018**

**A. SUMMARY OF AUDITOR'S REPORT**

**Financial Statements**

Type of Auditor's report issued:	<u>Unmodified</u>
Internal Controls Over Financial Reporting: Material Weakness reported?	Yes
Significant Deficiencies reported not Considered to be material weaknesses?	Yes
Noncompliance material to financials statements noted?	No

**Federal Awards**

Internal control over major programs:	
a. Material weakness reported?	No
b. Significant deficiencies reported not considered to be material weaknesses?	No
c. Know questioned costs greater than \$25,000 for compliance requirement for a major program?	No
d. Known questioned costs greater than \$25,000 for which is not audited as a major program?	No
e. Known or likely fraud?	No
f. Significant instances of abuse relating to major programs?	No
g. Circumstances causing the auditor's report on compliance for each major program to be modified, unless otherwise reported as audit findings?	No
h. Instances where results of audit follow up procedures disclosed that the summary schedule of prior year audit findings prepared by the auditee materially misrepresents the status of any prior audit findings?	No
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of federal Program or Cluster</u>
Various	Student financial Assistance Center
93.658	Foster Care Title IV-E
Various	Research and Development Cluster
84.031C	Higher Education Institutional Aid

Dollar threshold used to distinguish between type A and type B programs:	<u>\$750,000</u>
Auditee qualified as low risk auditee?	Yes

**STATE OF NEW MEXICO  
 NEW MEXICO HIGHLAND UNIVERSITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
 Year Ended June 30, 2018**

**B. SCHEDULE OF PRIOR YEAR FINDINGS**

*Financial Statement Audit*

2015-002	University Policies Not Approved (Significant Deficiency)	Cleared
2015-004	Capital Asset Accounting (Material Weakness)	Cleared
	Component Unit (Highlands Stable Isotopes Corporation) (Material	
2015-009	Noncompliance)	Cleared
2016-003	Budger Overspending (Other Nonecompliance)	Cleared
2017-001	Segrigation of duties over Cash Receipts(Significant Deficiency)	Cleared

*Findings in Accordance with 2.2.2 NMAC (State Audit Rule)*

2015-002	Insufficient Collateral (Other Noncompliance)	Cleared
2017-001	State Auditor Refferal letter ( Other Noncompliance)	Cleared
2017-002	Restricted Accounts (Other Noncompliance)	Cleared
2017-003	Internal Controls (Other Noncompliance)	Cleared
2015-009	Tax Status (Material Noncompliance)	Cleared

**C. CURRENT YEAR FINDINGS**

*Financial Statement Audit*

- 2018-004 FINANCIAL REPORT AND CLOSING (SIGNIFICANT DEFICIENCY)
- 2018-002 CONTROLS OVER CAMPUS LIFE ACCOUNTING (MATERIAL WEAKNESS)
- 2018-005 CONTROLS OVER CAPTIAL ASSETS (MATERIAL WEAKNESS)
- 2018-001 COMPLIANCE WITH FUEL CARD ACTIVITY (OTHER NONCOMPLIANCE)
- 2018-003 LACK OF POLICIES OVER BUDGET ADJUSTMENT REQUESTS (BARS) (OTHER NONCOMPLIANCE)

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2018**

**FINANCIAL STATEMENT FINDINGS**

**2018-001 COMPLIANCE WITH FUEL CARD ACTIVITY (OTHER NONCOMPLIANCE)**

**CONDITION**

During our evaluation of compliance over Fuel Card, it was identified that in one out of five samples selected with a total dollar value of \$28.29 the odometer readings were not being updated based on actual mileage. This is not in compliance with the University's own internal requirements.

**CRITERIA**

Per State Auditor Risk Advisory dated June 11, 2013, public entities should design and implement internal controls to ensure that all gas card purchases are in compliance with state regulations (and internal policies) and implement monitoring processes that are geared toward identifying potential unallowed purchases. The University fuel card process state requires that drivers fill out a New Mexico Highland University Motor Pool Trip Ticket upon return of the vehicle logging accurate mileage both on check out and check in of the fuel card/vehicle.

**CAUSE**

Policies and procedures related to fuel cards were not applied by NMHU staff, and noncompliance was not identified by NMHU staff in the review process.

**EFFECT**

Noncompliance with the University's internal control requirements may result in misappropriation, misuse, or potential fraud.

**RECOMMENDATION**

We recommend that all employees with access to a fuel card take additional training on standard operating procedures, and all employees receive up to date polices.

**PLAN OF CORRECTIVE ACTION TO CORRECT SIGNIFICANT DEFICIENCY**

Upon review by the Director of Facilities, it was determined the Fleet Manager allowed the mechanic to use one fuel card to fuel numerous vehicles which were being worked on by the mechanic. The Director of Facilities immediately corrected this by implementing an internal control to ensure all gas card purchases are in compliance with state regulations and internal policies. The fuel card used for multiple vehicles was cancelled and the mechanic is now using the cards assigned to each vehicle.

**VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN**

The University concurs with the finding related to the fuel card and the non-compliance of not recording odometer readings based on actual mileage. The University has taken immediate action to correct this deficiency and staff has been updated on the standard operating procedures in the Facilities Procedure Manual. Management will work with staff, conduct periodic internal audits, and continue to monitor to assure procedures are being followed. Point of Contact: Facilities Manager

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2018**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2018-002 CONTROLS OVER CAMPUS LIFE ACCOUNTING (MATERIAL WEAKNESS)**

**CONDITION**

During our evaluation of Revenues and Accounts receivable it was identified that none of the transactions processed through the “Campus Life” department have controls over financial reporting. The balances are not being reconciled to actual revenues, there are no segregation of duties over cash receipts or disbursements, and no support could be provided that agreed to the recorded balances.

**CRITERIA**

Per NMAC 2.20.5.8 C It is the responsibility of the chief financial officer to ensures that: 1. An internal control structure exists at the state agency and is functioning properly. 2. All transaction are recorded daily in the agency’s account records. 3. All transactions are properly classified in the agency’s records.

**CAUSE**

Policies and procedures have not been designed or implemented over the “Campus Life” department.

**EFFECT**

The lack of policies procedures or controls over the accounting of the department make it impossible to reconcile revenue, accounts receivable, and expenses. Additionally, if misappropriations were to occur it may not be identified due to the complete lack of controls and record keeping.

**RECOMMENDATION**

We recommend that a process be defined for the review of policies and procedures, including the financial close and reporting process, of the University and revisions recommended as appropriate. The revised policies and procedures should be approved by responsible officials and updated periodically as needed.

**PLAN OF ACTION TO CORRECT SIGNIFICANT DEFICIENCY**

The University recognized the serious nature of this audit finding and concurs, therefore, the Dean of Students will immediately implement the University’s current policy on cash management, receipts, payments, safekeeping, deposits and recording. Secondly, the segregation of duties will happen immediately as the Dean of Students will work with the Business Office Controller to identify segregation of duties related to cash receipts and

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2018**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2018-002 CONTROLS OVER CAMPUS LIFE ACCOUNTING (MATERIAL WEAKNESS)  
(CONTINUED)**

disbursements. Additionally, internal controls will be implemented and monitored on a quarterly basis to assure we are in compliance with the University policies and procedures.

Additionally, the University will conduct a 5-year internal audit on the cashing handling of Campus Life. The results of this audit may result in identifying additional deficiencies and could result in further corrective actions. Date of Completion: June 30, 2019.

**RESPONSIBLE OFFICIALS**

VP for Finance and Administration

Dean of Students

Comptroller / Director of Finance

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2018**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2018-003 LACK OF POLICIES OVER BUDGET ADJUSTMENT REQUESTS (BARs)  
(OTHER NONCOMPLIANCE)**

**CONDITION**

During our evaluation of Budget Adjustment Request (BARs) it was identified that 5 out of 5 BARs selected with a total dollar value of \$1,610,785 did not have proper review. Through further evaluation we identified that there are no procedures in place for review or approval of BARs prior to the adjustments being processed resulting in segregation of duties and noncompliance issues.

**CRITERIA**

Policies and Procedures are a significant and important part of the documented system of internal control and serve principally as directives for required actions to University staff. Policies and procedures define control procedures that help to ensure correct accounting for transactions and effective oversight of identified risk areas. Policies and procedures further demonstrate intent to funding sources to administer funds in accordance with grant covenants where policies are in place that addresses the respective grant requirements. Policies and procedures are a component of the general control environment of the University that allows more specific controls to function effectively.

**CAUSE**

Lack of policies or procedures over the BARs process.

**EFFECT**

This lack of segregation of duties in the budget function increases the risk that an error or irregularity could occur and go undetected.

**RECOMMENDATION**

We recommend that management review the BAR process from start to finish and determine where potential vulnerabilities in internal controls exist, and a process to rectify them. An appropriate level of review prior to final processing should be included in this process.

**PLAN OF ACTION TO CORRECT SIGNIFICANT DEFICIENCY**

The Director of Finance and the Budget Director will work together to develop the threshold on the BAR approval process and create a written procedure to address the segregation of duties and noncompliance issue to be followed. Staff will be trained on the new process and the Director of Finance/Comptroller will oversee the continued following of this internal control.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2018**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2018-003 LACK OF POLICIES OVER BUDGET ADJUSTMENT REQUESTS (BARs)  
(OTHER NONCOMPLIANCE) (CONTINUED)**

**VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN**

The University concurs with this finding. The Director of Finance/Comptroller and the Business Office will review the BAR process and develop policies and procedures to oversee this accounting practice and bring these adjustments into compliance with our internal controls. Date of Completion: January 31, 2019

Point of Contact:  
Director of Finance/ Comptroller  
Budget Director

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2018**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2018-004 FINANCIAL REPORT AND CLOSING (SIGNIFICANT DEFICIENCY)**

**CONDITION**

In preparation for final field work it was identified that significant adjustments to various key transaction cycles were required subsequent to the deadline established for the final trial balance. Additionally, the University does not have adequate procedures for year end close processes related to fixed assets, fund balance, and various accrual accounts resulting in subsequent adjustments to the trial balance totaling \$147,015,186.

**CRITERIA**

Per NMAC 2.20.5.8 Chief Financial Officer and Assignment of Responsibilities Part B states “It is the responsibility of the chief financial officer to ensure that:

- (1) an internal control structure exists at the state agency and is functioning properly.
- (2) all transactions are recorded daily in the agency’s accounting records.
- (3) all transactions are properly classified in the agency’s records.
- (4) cash account records are reconciled timely each month to the division’s reports and to the state

**CAUSE**

Lack of policies and procedures over year-end financial close and reporting.

**EFFECT**

The lack of procedures can result in late audits, significant misstatements, and increases potential for misstatements.

**RECOMMENDATION**

We recommend that management implement year end process, and set internal deadlines with all financial staff on when all year end closing processes must be complete.

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2018**

**FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2018-004 FINANCIAL REPORT AND CLOSING (SIGNIFICANT DEFICIENCY)  
(CONINUED)**

**PLAN OF ACTION TO CORRECT SIGNIFICANT DEFICIENCY**

Due to the turnover over of staff, we need to reestablish and uphold the year-end process and internal deadlines. The Business Office will be implementing a quarterly close for 2019. This will help improve the year-end closing and create the opportunity for the departments to communicate more regularly. Additional team meetings between the various financial departments will be added to the quarterly audit schedule.

**VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN**

The University does not agree to the lack of policy and procedures; however, the university does concur on implementing a greater level oversight and adherence to required deadlines across the university. Additional, minor milestones will be implement in the project time line to ensure a more management. Date of Completion: January 31, 2019.

Point of Contact:

VP of Finance and Administration

Director of Finance

**STATE OF NEW MEXICO  
NEW MEXICO HIGHLANDS UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2018**

**2018-005 CONTROLS OVER CAPITAL ASSETS (MATERIAL WEAKNESS)**

**CONDITION**

During the year, the University implemented a new fixed asset module to replace their spreadsheet tracking system. As a result, it was determined that their spreadsheet system had miscalculated amounts embedded within it resulting in a total misstatement of \$1,042,759.

**CRITERIA**

Amounts recorded in the financial statements should agree to subsidiary ledgers and such ledgers should be complete and accurate. Financial statement disclosures should agree to underlying data.

**CAUSE**

Manual records are kept in spreadsheets which are very susceptible to human error, and Inadequate review of calculations and supporting documentation could result in misstatements.

**EFFECT**

The University has restated the Capital Asset beginning balance by a net amount of \$1,042,759, to correct the variances identified as a result of the University converting from a manually maintained spreadsheet to the banner fixed asset module. Asset and expense accounts had to be adjusted by material amounts.

**RECOMMENDATION**

We recommend the University continue the process of converting maintenance of Capital Assets to the Banner system, and reconcile monthly rather than on an annual basis.

**PLAN OF ACTION TO CORRECT SIGNIFICANT DEFICIENCY**

The University believes this item has been addressed as we recognized the prior year differences and trued up our balances in the Banner Finance accounting system. There is no action plan as this issue has been fixed and reconciled with Banner and the audited Financial Statements.

**VIEW OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN**

The University agrees with the finding, however, this was initiated because of the threshold of the audit and truing up the prior year fund balances. The University has made significant improvements to address the fixed assets operations and utilization of NMHU Banner system. This implementation now provides a seamless alignment with financial and fixed assets systems. In addition, fixed assets reconciliation will be aligned with the financial quarterly reviews. Date of Completion: No plan of Action. This finding is conclusive.

Point of Contact: - VP of Finance and Administration, Purchasing Director

